Woods Hole, Martha's Vineyard and Nantucket

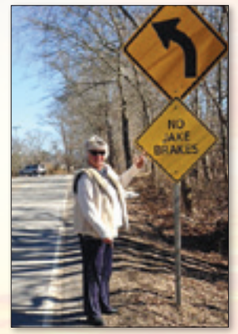
Steamship Authority

2014 Annual Report

IN MEMORIAM

Catherine N. Norton

It was with great sadness that we learned in December that Catherine N. Norton, the Authority's Falmouth Member, had passed away. Although Cathy served on the Authority's governing board for just a year, she was actively involved with various stakeholders and community groups while working towards a preferred concept design as the consensus solution in connection with the proposed Woods Hole terminal reconstruction project. She was also instrumental in the naming of the Authority's new vessel, the *M/V Woods Hole*, which is expected to be delivered in May 2016. One of her most satisfying achievements, however, was to see "No Jake Brakes" signs put up on Woods Hole Road, similar to the signs that she had observed on other state roads during her travels on and off the Cape.



Cathy will be remembered for her passion and perseverance during her short time on the Board. She will be greatly missed.

To: His Excellency, the Governor

To: The Members of the General Court

The 2014 Annual Report of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority is respectfully submitted in accordance with Section 13 of Chapter 701 of the Acts of 1960, as amended by Chapter 276 of the Acts of 1962.

Sincerely,

Marc N. Hanover
Martha's Vineyard
Chairman, 2015

AUTHORITY MEMBERS - 2014

Robert L. O'Brien

BARNSTABLE
CHAIRMAN

Marc N. Hanover

MARTHA'S VINEYARD
VICE CHAIRMAN

Catherine N. Norton

FALMOUTH
SECRETARY

John A. Tierney

NEW BEDFORD

Robert F. Ranney

NANTUCKET

Port Council Members - 2014

Frank J. Rezendes - Fairhaven, Chairman
Robert R. Jones - Barnstable, Vice Chairman
S. Eric Asendorf - Falmouth, Secretary (January)
Nathaniel E. Lowell - Nantucket, Secretary (February – December)
Robert S. C. Munier - Falmouth (May – December)
Edward C. Anthes-Washburn - New Bedford
Robert V. Huss - Oak Bluffs
George J. Balco - Tisbury

Wayne C. Lamson - General Manager
Robert B. Davis - Treasurer/Comptroller
Steven M. Sayers - General Counsel

Woods Hole, Martha's Vineyard and Nantucket

Steamship Authority

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2014 OVERVIEW

The Steamship Authority had another successful year of operation in 2014, while continuing to plan for and reinvest in upgrades of its aging fleet, facilities and equipment. The Authority's net operating income for the year 2014 was $7,732,709, which was $4,893,905 higher than the previous year. It was the 52nd consecutive year without a deficit assessment on the taxpayers of the Authority's port communities.

Operating revenues totaled $93,872,599, up $3,659,227, or 4.1%, compared to 2013. The total number of passengers carried in 2014 was 2,893,851, an increase of 47,160, or 1.7%, compared to the previous year. Of particular note, the Authority experienced a 7.6% increase in its passenger ridership on its high-speed ferry between Hyannis and Nantucket in 2014 over 2013. In 2014, the Authority carried 457,682 automobiles, an increase of 5,396, or 1.2%, versus 2013. The number of trucks carried in 2014 totaled 166,577 (including trailers, pickups, vans, buses, campers and miscellaneous trucks of all sizes), an increase of 4,429, or 2.7%, compared to the previous year.

The Authority's total operating expenses in 2014 were $85,359,679, or 0.7% less than the previous year, primarily attributable to the cost incurred in 2013 to repair the Oak Bluffs pier from damage caused by Hurricane Sandy totaling $2,153,884. Wages and the cost of employee benefits increased by 0.8% in 2014, compared to the previous year. The Authority's average cost per gallon of vessel fuel oil in 2014 decreased by 3.3%, contributing to an overall reduction in vessel fuel oil expense of 3.9%, versus 2013.

Interest on bonds and other fixed charges were offset by license fee income and other income to bring the Authority's net operating income in 2014 to $7,732,709.

In April, Governor Deval L. Patrick approved legislation passed by the Massachusetts Legislature increasing the Authority's bond limit from $75 million to $100 million. The last time the Authority's bond authorization was increased was in 2002. Adjusting for inflation, you would need approximately $97 million in 2014 to purchase what $75 million bought in 2002.

In December, the Authority refunded $22,765,000 of its 2004 Series B Steamship Bonds that otherwise would have matured over the next seven years by issuing new Steamship Bonds, which will result in a net interest savings of around $2,619,000 over the same period.

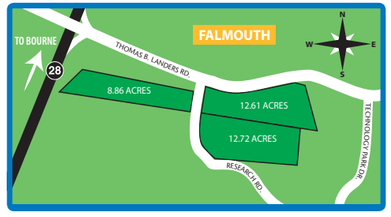
Cash transfers from the Authority's Revenue Fund to its special-purpose funds in 2014 included $9,962,523 to the Replacement Fund and $3,505,642 to the Bond Redemption Fund to be used for capital improvements.

The Authority disbursed $11,936,724 from its Replacement Fund in 2014 in connection with various capital projects.

A more detailed analysis of the Authority's financial statements for the year ended December 31, 2014, and further information regarding its 2014 fund transfers and use of special-purpose funds are included in the Management's Discussion and Analysis section of this report.

LAND SWAP WITH THE TOWN OF FALMOUTH

In March 2014, the Authority conveyed an 8.86-acre parcel of land located on Research Road just south of Thomas B. Landers Road in West Falmouth to the Town of Falmouth in exchange for a 12.72-acre parcel of land across Research Road and adjacent to a 12.61-acre parcel already owned by the Authority. The Authority was approached by representatives from the Town of Falmouth in 2011 about a possible acquisition of the Authority's undeveloped parcel. The Town's interest in acquiring the Authority's parcel was based on a number of considerations, including the fact that the property is adjacent to the Town's wastewater treatment facility, located immediately to the south, and the lot lies just outside of a Coastal Pond Overlay District, which generally requires nitrogen from development to be minimized. The parcels were exchanged in 2014 after the Town completed an environmental review process for the expansion of its wastewater treatment facility.



NO DISCHARGE AREA DESIGNATION FOR THE COASTAL WATERS OF SOUTH CAPE COD AND THE ISLANDS

In the spring of 2014, the Authority completed the replacement of all of its existing United States Coast Guard–approved Type I Marine Sanitation Devices (MSDs) with holding tanks on all of its vessels to prevent treated sewage from being discharged in the newly designated No Discharge Area. This was in response to the Massachusetts Office of Coastal Zone Management's request to the Federal Environmental Protection Agency for the approval of a No Discharge Area for the coastal waters of South Cape Cod and the Islands. The Authority's Type I MSDs used saltwater and an electrolytic wastewater treatment process to reduce fecal coliform bacteria counts to very low levels but did not remove significant amounts of nitrogen from the treated waste before it was discharged.

This initiative began in 2012 with the installation of a landside pump-out facility, including an underground pump-out vacuum system, pump station, holding tanks and connection to the town sewer line at each of the Authority's terminals in Woods Hole, Vineyard Haven, Nantucket and Hyannis. The vessel modifications included the removal of all existing sewage treatment equipment, the installation of holding tanks and related piping, and the conversion from saltwater to freshwater to avoid causing any complications or operational issues for the towns' wastewater treatment facilities. These modifications were then scheduled and completed in conjunction with each vessel's ensuing dry-dock inspection and repair period. The total cost of installing the landside pump-out facilities and making all of the vessel modifications was $4,298,000, of which the Authority received $1,270,000 through the Massachusetts Department of Transportation from the Federal Highway Administration's FY 2011 discretionary grant Ferry Boat Program.

PALMER AVENUE PARKING LOT IMPROVEMENT PROJECT

In the spring of 2014, Lawrence-Lynch Corp. of Falmouth, Massachusetts, completed Phase II of the Authority's Palmer Avenue parking lot improvements project. The Horsley Witten Group of Sandwich, Massachusetts, was hired to design a more functional parking facility with upgrades to the existing stormwater infrastructure from both a water quantity control and water quality treatment perspective. Phase II of the project consisted of a reorganization and reconstruction of the existing parking spaces, utility improvements, a Low Impact Design (LID) stormwater management system and a native non-invasive landscape design. The stormwater system consists of vegetated swales, bioretention areas and underground recharge chambers. The underground chambers capture and store treated stormwater collected by the bioretention areas from surrounding impervious areas. The use of underground stormwater recharge units allows the stored stormwater to infiltrate into the subsurface to recharge groundwater. The new stormwater management system also conforms to Massachusetts Department of Environmental Protection groundwater protection criteria to the greatest extent practicable.

THOMAS B. LANDERS ROAD PARKING FACILITY

In August, the Members awarded a contract for the construction of the Authority's new Thomas B. Landers Road parking facility in West Falmouth to Lawrence-Lynch Corp. of Falmouth, Massachusetts, for a total contract price of $5,175,175. The new lot, which is expected to be completed by June 2015, has been designed with a porous pavement surface and will have nearly 1,900 spaces, approximately the same number of spaces as in the Authority's two Gifford Street parking lots and its Cataumet parking lot combined. The consolidation of these parking lots will reduce traffic congestion in downtown Falmouth (particularly on Gifford Street), and allow the Authority to operate a more efficient parking and shuttle bus operation. The new lot is expected to be used throughout the busy summer season, and during peak travel weekends in the spring and fall.

NEW PASSENGER/VEHICLE FERRY - *M/V WOODS HOLE*

Preliminary design plans for the Authority's new passenger/vehicle ferry, the *M/V Woods Hole*, were completed by Elliott Bay Design Group, LLC of Seattle, Washington, in early 2014. The vessel will be 235 feet in overall length and have a beam of 64 feet. When fully loaded with passengers and vehicles, the vessel will have a maximum draft of 10.5 feet and a maximum operating speed of 16 knots. The new vessel will accommodate up to 384 persons onboard (including crew) and 55 car-equivalent vehicles.

The preliminary design process included a confirmation of the vessel's planned powering and seakeeping characteristics through a series of hull tests conducted by FORCE Technology in Denmark, using a custom-made model *(pictured to the right)*. The model test results indicated that the vessel's hull design will be very efficient, requiring less than 2,500 horsepower to operate at a service speed of 14 knots, and that the vessel's wake is expected to be minimal, even when the vessel is traveling up to 9 knots.

Final plans and drawings for the new vessel were substantially completed in August 2014 when a full design package was submitted to the United States Coast Guard's Marine Safety Center for its review and approval.

An invitation for bids for the construction and delivery of the new vessel was issued and advertised in September, and the bid opening took place in November. The lowest eligible and responsible bidder for the contract was Conrad Shipyard, LLC of Morgan City, Louisiana, who submitted a bid of $36,448,000. The Members then voted in December to award the contract to Conrad.

The *M/V Woods Hole* will replace the 60-year-old *M/V Governor*, and it will be capable of operating to and from all of the Authority's terminals on both of its routes between the Massachusetts mainland and the islands of Martha's Vineyard and Nantucket. The Authority currently has a fleet of nine vessels, including a high-speed passenger vessel, with an average age of 30 years. The *M/V Woods Hole* is expected to be delivered in May 2016.

NEW MODULAR BUILDING FOR THE FAIRHAVEN VESSEL MAINTENANCE FACILITY

The Authority awarded a contract in September 2014 to Cape Building Systems, Inc. of Mattapoisett, Massachusetts, for a new modular/prefabricated building at its vessel maintenance facility in Fairhaven, Massachusetts, for a total contract price of $1,745,000. The 40-foot by 150-foot metal building will provide a total of over 10,000 square feet of floor area on two levels for the storage of spare parts, tools and equipment, such as forklifts, scissor lifts and Genie booms, and for a training room, an employee break room and an office. The cost of the project is being partially funded by a grant of $1,133,792 through the Massachusetts Department of Transportation from the Federal Highway Administration's Ferry Boat Program. The new building will eventually replace two smaller storage buildings on the property that were deemed inadequate and in need of replacement. The completion of this project in the summer of 2015 will greatly improve the overall functionality of the Authority's vessel maintenance facility, a property that was acquired in 2001 after the Authority's in-house vessel repair activities were moved from the Woods Hole terminal (and then temporarily relocated to the State Pier in Fall River, Massachusetts).

WOODS HOLE TERMINAL RECONSTRUCTION FEASIBILITY STUDY

In December 2014, the Members approved a preferred design concept for the purpose of the Woods Hole terminal reconstruction feasibility study that was developed by Bertaux + Iwerks Architects of Boston, Massachusetts. Bertaux + Iwerks, in association with the marine engineering firm of Moffatt & Nichol of New York, New York, were selected by the Massachusetts Designer Selection Board in March 2013 to perform study and design services for the Woods Hole terminal reconstruction project.

The purpose of the study was to assess the Steamship Authority's current operations and future needs at the Woods Hole terminal, and to evaluate different alternatives for the renovation and/or replacement of the existing landside and waterside facilities.

Bertaux + Iwerks received approximately 400 comments from interviews with various stakeholders, including a list of concerns from representatives of the Falmouth Planning Department, the Woods Hole Community Association and the Woods Hole Business Association. The desired outcomes were then arranged in three categories: functional outcomes, customer experience outcomes and community outcomes. The different design alternatives were then evaluated as to how well they addressed each desired outcome.

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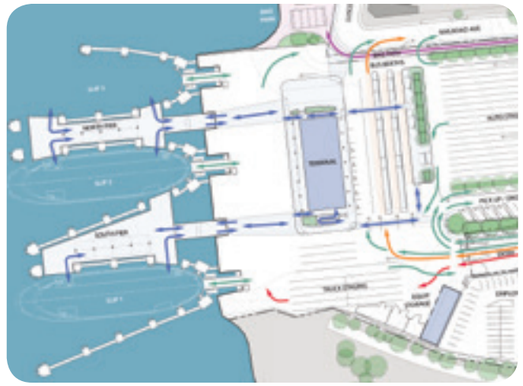
WOODS HOLE TERMINAL RECONSTRUCTION FEASIBILITY STUDY...continued



The present terminal building is located in a flood zone, and it is not possible to renovate the existing building or construct a new building in that location without raising its elevation by seven feet. Therefore, any new building will have to be located further away from the water.

After many months, a preferred design concept alternative emerged from the feasibility study as the consensus solution. The terminal reconstruction project will require a multiyear, multiphase approach for rebuilding the three ferry slips and a new terminal building in order to maintain continuous operations during construction.

The primary objectives of the project are to:

- Ensure that the bulkheads, dolphins, fenders and transfer bridges will be in good and suitable condition to maintain ferry operations for the foreseeable future.
- Develop a preferred slip configuration that optimizes navigation and access from the water.
- Increase the length of the transfer bridges to each of the slips from 30 feet to 50 feet (similar to the 50-foot transfer bridges at each of the slips at the Authority's other terminals) to allow for easier loading and unloading of all vehicles during high and low tides.
- Improve pedestrian safety and convenience, including better accessibility during side passenger loading/unloading operations from adjacent piers.

Keeping the terminal building in its current location on the pier would severely restrict the Authority's ability to improve the condition and configuration of the three ferry slips for the overall benefit of the Authority's ferry operations. The two-story, unreinforced concrete block wall building and its systems have reached the end of their useful life. Any significant repairs or improvements to the present terminal building would require the Authority to bring the entire building into compliance with existing code requirements, including the need for the first-floor elevation to be seven feet higher than its current elevation. The cost of reconstructing the building at this location would also be higher because of its location on a pier, seismic load and foundation requirements, and the need for accessible routes for customers to and from the building.

The conceptual demolition and construction phasing plan includes the relocation of the Authority's General Offices and a temporary terminal building with a ticket office, waiting room and public restroom facilities. Efforts to find a suitable location in Woods Hole for the Authority's General Offices have been unsuccessful. Accordingly, the Authority is currently planning to relocate its General Offices to a new building that will be constructed at its Palmer Avenue parking lot.

With the feasibility study phase of the Woods Hole terminal reconstruction project now completed, Bertaux + Iwerks and the rest of its design team can move forward with the remaining design and engineering work, including a required environmental permitting process that will provide further opportunity for the public to comment.

FERRY EMBARKATION FEES COLLECTED ON BEHALF OF THE PORT COMMUNITIES

The Authority collected town-imposed ferry embarkation fees totaling $933,379 from passengers traveling on its vessels during 2014.

A state law passed in 2003 allows any city or town in Barnstable, Dukes, Nantucket and Bristol counties to accept a provision that requires the Authority and certain other private ferry operators to impose a 50-cent-per-person ferry embarkation fee for travel originating from its community. The law exempts specific passengers from the town-mandated fee, including certain island residents traveling at excursion rates, commuters using ticket books and those traveling in school-related groups. The law also exempts passengers carried on ferry boats that are licensed by the United States Coast Guard to transport not more than 100 passengers.

The fees collected under the statute by the various ferry operators are distributed to the respective cities and towns through the Massachusetts Department of Revenue. The statute requires each city or town to deposit the monies received into a special fund "to be solely appropriated for the purpose of mitigating the impacts of ferry service on the city or town. Monies deposited may be appropriated for services including, but not limited to, providing harbor services, public safety protection, emergency services or infrastructure improvements within and around the harbor."

The ferry embarkation fees collected by the Authority were distributed through the Massachusetts Department of Revenue to the following port towns that have accepted the provisions of the statute:

	2014	TOTAL 2004 – 2014
BARNSTABLE *	$ 85,531	$ 866,820
FALMOUTH	355,003	3,868,469
NANTUCKET	113,912	1,145,339
OAK BLUFFS	104,411	1,094,526
TISBURY	246,011	2,716,433
YARMOUTH **	28,511	288,941

** 75% of fees collected from passengers departing from the town of Barnstable*
*** 25% of fees collected from passengers departing from the town of Barnstable*

By the end of 2014, a total of $9,980,528 in ferry embarkation fees had been collected from passengers traveling on the Authority's vessels for the port towns since they accepted the provisions of chapter 46 of the Acts of 2003, as amended by chapter 55 of the Acts of 2003 and chapter 65 of the Acts of 2004.

A WORD OF THANKS TO OUR EMPLOYEES

None of our successes and accomplishments in 2014 would have been possible without the commitment and dedication of the Authority's employees. The collective efforts of the men and women employed by the Authority enabled us to continue our outstanding record of providing safe and reliable ferry service for the islands of Martha's Vineyard and Nantucket. Our vessel crews completed a combined 22,107 trips in 2014, an increase of 57 trips, or 0.3%, over 2013. The number of cancelled trips in 2014 due to adverse weather or sea conditions totaled 439, and another 43 trips were cancelled for mechanical reasons. The total number of cancelled trips in 2014 due to weather or mechanical issues represented 2.2% of all scheduled trips. We extend our thanks and gratitude to all of the Authority's employees for their contributions and teamwork.

Traffic Statistics

Passengers Carried

Number of passengers carried from each port during 2014.

FROM: / TO:	WOODS HOLE	VINEYARD HAVEN	OAK BLUFFS	NANTUCKET	HYANNIS
WOODS HOLE		889,623	251,896		
VINEYARD HAVEN	896,304				
OAK BLUFFS	250,176				
NANTUCKET					301,966
HYANNIS				303,886	
TOTAL: 2014	1,146,480	889,623	251,896	303,886	301,966
TOTAL: 2013	1,136,823	873,547	253,338	292,452	290,531
CHANGE:	0.8%	1.8%	-0.6%	3.9%	3.9%

Passengers Carried and Revenue - 2014 vs. 2013

	NUMBER OF PASSENGERS			TICKETED REVENUE FROM PASSENGERS CARRIED*			AVERAGE REVENUE PER PASSENGER		
MONTH	2013	2014	CHANGE	2013	2014	CHANGE	2013	2014	CHANGE
JANUARY	106,944	103,577	-3.1%	$ 796,567	$ 779,327	-2.2%	$ 7.45	$ 7.52	0.9%
FEBRUARY	86,742	95,852	10.5%	652,897	714,203	9.4%	7.53	7.45	-1.1%
MARCH	120,268	114,009	-5.2%	906,371	876,153	-3.3%	7.54	7.68	1.9%
APRIL	164,637	170,890	3.8%	1,468,052	1,480,179	0.8%	8.92	8.66	-2.9%
MAY	251,021	257,641	2.6%	2,532,180	2,585,995	2.1%	10.09	10.04	-0.5%
JUNE	313,603	322,751	2.9%	3,193,796	3,330,511	4.3%	10.18	10.32	1.4%
JULY	452,451	456,904	1.0%	4,765,572	4,822,417	1.2%	10.53	10.55	0.2%
AUGUST	496,365	502,307	1.2%	5,280,295	5,422,152	2.7%	10.64	10.79	1.4%
SEPTEMBER	306,224	307,825	0.5%	3,205,629	3,278,739	2.3%	10.47	10.65	1.7%
OCTOBER	242,211	248,531	2.6%	2,352,747	2,469,708	5.0%	9.71	9.94	2.4%
NOVEMBER	154,475	159,600	3.3%	1,428,210	1,536,390	7.6%	9.25	9.63	4.1%
DECEMBER	151,750	153,964	1.5%	1,523,647	1,573,915	3.3%	10.04	10.22	1.8%
TOTAL	**2,846,691**	**2,893,851**	**1.7%**	**$ 28,105,963**	**$ 28,869,689**	**2.7%**	**$ 9.87**	**$ 9.98**	**1.1%**

* Ticketed revenue from passengers carried differs from passenger revenue in the financial statements due to classification and timing differences.

Automobiles Carried

Number of automobiles carried from each port during 2014.

FROM: / TO:	WOODS HOLE	VINEYARD HAVEN	OAK BLUFFS	NANTUCKET	HYANNIS
WOODS HOLE		164,530	31,221		
VINEYARD HAVEN	160,815				
OAK BLUFFS	36,298				
NANTUCKET					32,741
HYANNIS				32,077	
TOTAL: 2014	197,113	164,530	31,221	32,077	32,741
TOTAL: 2013	195,008	162,420	31,436	31,326	32,096
CHANGE:	1.1%	1.3%	-0.7%	2.4%	2.0%

Automobiles Carried and Revenue - 2014 vs. 2013

	NUMBER OF AUTOMOBILES			TICKETED REVENUE FROM AUTOMOBILES CARRIED*			AVERAGE REVENUE PER AUTOMOBILE		
MONTH	2013	2014	CHANGE	2013	2014	CHANGE	2013	2014	CHANGE
JANUARY	21,407	21,013	-1.8%	$ 671,629	$ 668,538	-0.5%	$ 31.37	$ 31.82	1.4%
FEBRUARY	18,245	19,752	8.3%	555,386	605,609	9.0%	30.44	30.66	0.7%
MARCH	25,180	24,524	-2.6%	836,469	797,199	-4.7%	33.22	32.51	-2.1%
APRIL	29,234	30,948	5.9%	1,487,798	1,586,225	6.6%	50.89	51.25	0.7%
MAY	38,881	39,996	2.9%	2,475,663	2,564,859	3.6%	63.67	64.13	0.7%
JUNE	48,144	49,039	1.9%	3,710,056	3,795,163	2.3%	77.06	77.39	0.4%
JULY	59,225	59,915	1.2%	5,001,655	5,068,526	1.3%	84.45	84.60	0.2%
AUGUST	65,340	64,551	-1.2%	5,702,556	5,689,994	-0.2%	87.28	88.15	1.0%
SEPTEMBER	47,802	48,501	1.5%	3,345,499	3,378,217	1.0%	69.99	69.65	-0.5%
OCTOBER	38,137	39,037	2.4%	2,180,275	2,258,324	3.6%	57.17	57.85	1.2%
NOVEMBER	30,369	31,039	2.2%	1,089,388	1,138,977	4.6%	35.87	36.70	2.3%
DECEMBER	30,322	29,367	-3.1%	1,044,841	1,004,468	-3.9%	34.46	34.20	-0.8%
TOTAL	**452,286**	**457,682**	**1.2%**	**$ 28,101,215**	**$ 28,556,099**	**1.6%**	**$ 62.13**	**$ 62.39**	**0.4%**

* Ticketed revenue from automobiles carried differs from automobile revenue in the financial statements due to classification and timing differences.

Traffic Statistics *(continued)*

Trucks Carried

Number of trucks carried from each port during 2014.

FROM: / TO:	WOODS HOLE	VINEYARD HAVEN	OAK BLUFFS	NANTUCKET	HYANNIS
WOODS HOLE		54,584	5,947		
VINEYARD HAVEN	55,340				
OAK BLUFFS	5,509				
NANTUCKET					22,818
HYANNIS				22,379	
TOTAL: 2014	60,849	54,584	5,947	22,379	22,818
TOTAL: 2013	59,714	53,190	6,018	21,379	21,847
CHANGE:	1.9%	2.6%	-1.2%	4.7%	4.4%

Trucks Carried and Revenue - 2014 vs. 2013

	NUMBER OF TRUCKS			TICKETED REVENUE FROM TRUCKS CARRIED*			AVERAGE REVENUE PER TRUCK		
MONTH	2013	2014	CHANGE	2013	2014	CHANGE	2013	2014	CHANGE
JANUARY	10,441	10,413	-0.3%	$ 1,330,784	$ 1,387,726	4.3%	$ 127.46	$ 133.27	4.6%
FEBRUARY	9,406	10,223	8.7%	1,222,244	1,329,012	8.7%	129.94	130.00	0.0%
MARCH	12,134	12,293	1.3%	1,526,653	1,580,619	3.5%	125.82	128.58	2.2%
APRIL	14,419	15,133	5.0%	2,060,037	2,262,091	9.8%	142.87	149.48	4.6%
MAY	16,975	17,112	0.8%	2,534,753	2,652,203	4.6%	149.32	154.99	3.8%
JUNE	15,861	16,550	4.3%	2,467,004	2,646,973	7.3%	155.54	159.94	2.8%
JULY	15,883	15,924	0.3%	2,619,476	2,698,598	3.0%	164.92	169.47	2.8%
AUGUST	14,433	14,063	-2.6%	2,402,357	2,390,433	-0.5%	166.45	169.98	2.1%
SEPTEMBER	14,136	14,978	6.0%	2,006,383	2,206,559	10.0%	141.93	147.32	3.8%
OCTOBER	14,474	15,009	3.7%	1,994,226	2,120,524	6.3%	137.78	141.28	2.5%
NOVEMBER	12,118	12,280	1.3%	1,451,717	1,521,210	4.8%	119.80	123.88	3.4%
DECEMBER	11,868	12,599	6.2%	1,460,022	1,629,086	11.6%	123.02	129.30	5.1%
TOTAL	**162,148**	**166,577**	**2.7%**	**$ 23,075,656**	**$ 24,425,034**	**5.8%**	**$ 142.31**	**$ 146.63**	**3.0%**

* Ticketed revenue from trucks carried differs from freight revenue in the financial statements due to classification and timing differences.

A 10-Year Traffic History

Passengers Carried

	MARTHA'S VINEYARD	NANTUCKET	TOTAL
2005	2,098,037	511,798	**2,609,835**
2006	2,105,128	515,437	**2,620,565**
2007	2,143,160	549,206	**2,692,366**
2008	2,174,185	517,846	**2,692,031**
2009	2,179,567	513,611	**2,693,178**
2010	2,213,800	522,347	**2,736,147**
2011	2,189,530	522,517	**2,712,047**
2012	2,244,441	558,539	**2,802,980**
2013	2,263,708	582,983	**2,846,691**
2014	2,287,999	605,852	**2,893,851**

Vehicles Under 20′ in Length Carried

(including automobiles, pickup trucks, vans, etc.)

	MARTHA'S VINEYARD	NANTUCKET	TOTAL
2005	437,197	86,303	**523,500**
2006	436,794	89,023	**525,817**
2007	432,331	88,022	**520,353**
2008	434,246	84,554	**518,800**
2009	440,058	81,212	**521,270**
2010	445,662	81,789	**527,451**
2011	446,360	80,180	**526,540**
2012	455,894	80,551	**536,445**
2013	462,148	79,928	**542,076**
2014	466,900	82,308	**549,208**

Vehicles 20′ and Over in Length Carried

(including trucks, trailers, buses, campers, etc.)

	MARTHA'S VINEYARD	NANTUCKET	TOTAL
2005	45,703	28,074	**73,777**
2006	47,072	30,499	**77,571**
2007	47,856	30,992	**78,848**
2008	47,335	28,615	**75,950**
2009	44,246	24,137	**68,383**
2010	44,467	23,233	**67,700**
2011	44,037	23,524	**67,561**
2012	42,617	24,545	**67,162**
2013	45,638	26,720	**72,358**
2014	47,344	27,707	**75,051**

Financial Statements
and
Required Supplementary Information (Unaudited)

YEARS ENDED DECEMBER 31, 2014 AND 2013

Independent Auditor's Report

McGladrey

To the Woods Hole, Martha's Vineyard and
Nantucket Steamship Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority (the "Authority"), as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority as of December 31, 2014 and 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Member of the RSM International network of independent accounting, tax and consulting firms.

Independent Auditor's Report

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis, the Pension Plan Schedule of Funding Progress, and the Other Postemployment Benefit Schedule of Funding Progress*, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated March 26, 2015 and March 31, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

McGladrey LLP

Boston, Massachusetts
March 26, 2015

As management of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority (the "Authority" or "Steamship Authority"), we offer readers of our financial statements the following narrative overview and analysis of our financial activities for the years ended December 31, 2014 and 2013. The Steamship Authority is a public instrumentality created by the legislature of the Commonwealth of Massachusetts under Chapter 701 of the Acts of 1960, as amended (the "Act"), "in order to provide adequate transportation of persons and necessaries of life for the islands of Nantucket and Martha's Vineyard".

Overview of the Financial Statements

This overview and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority is a special-purpose governmental entity engaged in only business-type activities. As such, its financial statements consist of only those required for enterprise funds and the related notes. The Authority's financial statements include statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows. In addition to the basic financial statements, this report includes notes to the financial statements and also contains required supplementary information pertaining to the pension plan and other postemployment benefit plan of the Authority.

The statements of net position report assets plus deferred outflows of resources, liabilities plus deferred inflows of resources and the difference between them as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net position consists of three sections: net investment in capital assets; restricted; and unrestricted. The net investment in capital assets component of the net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position. Net position is reported as restricted when constraints are imposed by third parties or enabling legislation. All other net position is unrestricted.

The statements of revenues, expenses and changes in net position report the operating revenues and expenses and nonoperating revenues and expenses of the Authority for the year with the difference, the net income or loss, being combined with any capital grants and contributions; income from special-purpose restricted funds; and special items to determine the change in net position for the year. That change combined with the net position at the end of the previous year reconciles to the net position at the end of the current year.

The statements of cash flows report cash and cash equivalents activities for the year resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The net results of these activities added to the beginning of the year cash and cash equivalents balance reconciles to the cash and cash equivalents balance at the end of the current year.

Management's Discussion and Analysis (Unaudited)
Years Ended December 31, 2014 and 2013

Condensed Financial Information

Condensed financial information from the statements of net position and the statements of revenues, expenses and changes in net position for the years ended December 31, 2014, 2013 and 2012, are as follows:

	2014	2013	2012 (AS RESTATED)
Current and other noncurrent assets	$ 15,646,541	$ 18,073,644	$ 16,075,076
Special-purpose restricted funds	30,688,135	29,611,088	28,344,970
Capital assets, net	128,428,329	125,789,632	129,312,320
Total assets	174,763,005	173,474,364	173,732,366
Deferred outflows of resources	9,168	64,157	119,147
Total assets and deferred outflows of resources	**$ 174,772,173**	$ 173,538,521	$ 173,851,513
Current liabilities	$ 11,658,602	$ 12,299,681	$ 11,191,596
Liabilities payable from special-purpose restricted funds	5,851,026	6,229,742	6,072,273
Noncurrent liabilities	59,256,205	65,904,818	71,671,854
Total liabilities	76,765,833	84,434,241	88,935,723
Deferred inflows of resources	587,044	-	-
Net position:			
Net investment in capital assets	79,879,804	71,656,772	69,708,398
Restricted	30,577,109	28,886,346	27,547,697
Unrestricted	(13,037,617)	(11,438,838)	(12,340,305)
Net position	97,419,296	89,104,280	84,915,790
Total liabilities, deferred inflows of resources and net position	**$ 174,772,173**	$ 173,538,521	$ 173,851,513
Operating revenues:			
Total operating revenues	$ 93,782,599	$ 90,123,372	$ 85,372,258
Operating expenses:			
Total operating expenses	85,359,679	85,963,747	80,800,397
Operating income	**8,422,920**	4,159,625	4,571,861
Nonoperating (expenses) revenues:			
Interest on bonds and other obligations	(2,542,977)	(2,766,703)	(3,016,145)
Miscellaneous revenue	1,933,151	1,742,870	1,298,842
Miscellaneous expense	(80,385)	(296,988)	(22,943)
Net nonoperating (expenses) revenues	(690,211)	(1,320,821)	(1,740,246)
Income before capital grants and contributions, income from special-purpose restricted funds and special item - Teamsters pension merger	7,732,709	2,838,804	2,831,615
Capital grants and contributions	541,883	2,313,421	1,033,017
Income from special-purpose restricted funds	40,424	36,265	1,979
Special item - Teamsters pension merger	-	(1,000,000)	-
Change in net position	**8,315,016**	4,188,490	3,866,611
Net position, beginning of year	**89,104,280**	84,915,790	81,049,179
Net position, end of year	**$ 97,419,296**	$ 89,104,280	$ 84,915,790

FINANCIAL ANALYSIS

Comparison of Financial Condition at December 31, 2014 and 2013

The Authority's total assets and liabilities were $174,763,005 and $76,765,833, respectively, as of December 31, 2014, as compared to $173,474,364 and $84,434,241, respectively, at December 31, 2013. The Authority's deferred outflows of resources were $9,168 and $64,157, for the years ended December 31, 2014 and 2013, respectively. The Authority's deferred inflows of resources were $587,044 and $0, for the years ended December 31, 2014 and 2013, respectively. The net position as of December 31, 2014, was $97,419,296, a 9.3% increase from the prior fiscal year-end.

The increase in total net position was $8,315,016 for the year ended December 31, 2014, up from the $4,188,490 increase in total net position posted in 2013. Income before capital grants and contributions; income from special-purpose restricted funds; and the special item for pension merger in 2014 increased $4,893,905, or 172.4%, compared to the prior year.

The increase in income before capital grants and contributions; income from special-purpose restricted funds; and the special item for pension merger was primarily attributed to a $3,659,227, or 4.1% increase in the Authority's total operating revenues. Total operating expenses for the year ended December 31, 2014 decreased by $604,068, or 0.7% versus the previous year while nonoperating expenses decreased by $630,610, or 47.7%. These changes are discussed in greater detail in the following sections.

During 2014, the Steamship Authority was awarded grants under the Ferry Boat Discretionary Program, the Port Security Program and from the Federal Emergency Management Agency (FEMA) Public Assistance (PA) Program. These awards are recorded under the heading Capital Grants and Contributions in the Statements of Revenues, Expenses and Changes in Net Position.

Operating Revenues

The Steamship Authority's total operating revenues in 2014 were $93,782,599. Total operating revenues increased by approximately $3,659,000 or 4.1% for the year ended December 31, 2014. In order to ensure sufficient income to meet the cost of service in 2014, the Authority Members approved certain rate increases that became effective January 1, 2014.

The number of passengers carried increased by 47,160 or 1.7% in 2014 from 2013. Ridership on the conventional service increased by 24,489 riders or 1.0%, while passenger traffic carried on the *M/V Iyanough* increased by 22,671 passengers or 7.6% for the year as compared to 2013. In addition, the average revenue per passenger increased from $10.06 in 2013 to $10.18 in 2014 due, in part, to the increase in riders on the high-speed service. Total passenger revenues in 2014 were $29,447,793, an increase of 2.8% versus the previous year.

The number of automobiles carried increased by 5,396 or 1.2% in 2014 versus 2013. The average revenue per automobile increased from $61.92 in 2013 to $62.14 in 2014 due, in part, to a change in the mix of automobiles carried on the Martha's Vineyard and Nantucket routes as well as the increases in ridership. Total automobile revenues in 2014 were $28,441,284, an increase of 1.6% versus the previous year.

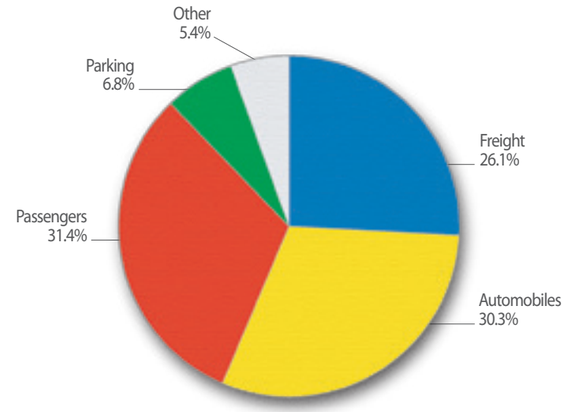
FINANCIAL ANALYSIS...continued
Operating Revenues...continued

The number of trucks carried increased by 4,429 or 2.7% in 2014 from 2013 traffic levels. The average revenue per truck increased from $142.36 in 2013 to $146.84 during 2014 due, in part, to an overall increase in trucks carried to Nantucket and Martha's Vineyard as well as the rate increases which became effective January 1, 2014. Total freight revenues in 2014 were $24,460,534, an increase of 6.0% versus the previous year.

Parking revenue in 2014 increased by approximately $715,000 from 2013, primarily as a result of an increase in cars parked at the Hyannis area lots as well as the rate increases which became effective January 1, 2014. The total number of cars parked increased by 2,883 or 1.7% versus 2013. Total parking revenues in 2014 were $6,373,395, an increase of 12.6% versus the previous year.

Other miscellaneous operating revenues increased by approximately $328,000 or 6.9% in 2014, primarily due to increases in cancellation penalties and miscellaneous service charges for driver services.

The major sources of operating revenues for the year ended December 31, 2014, were as follows:



FINANCIAL ANALYSIS...continued

Operating Expenses

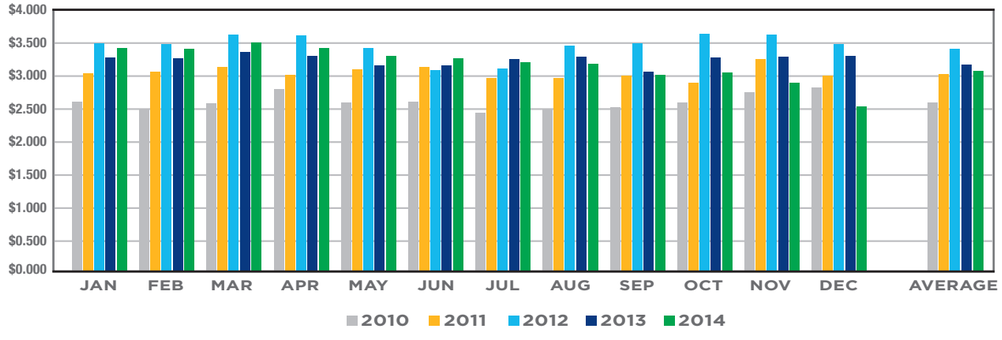
The Authority's total operating expenses in 2014 were $85,359,679; in 2013, total operating expenses were $85,963,747. Total operating expenses in 2014 were approximately $604,000, or 0.7% lower than the previous year. Increases in wages and benefits, depreciation expense, advertising and rents were offset by lower maintenance expense, vessel fuel oil costs, and insurance expense, compared to the prior year.

Maintenance expense decreased in 2014 versus 2013 by approximately $952,000, or 6.5%. The decrease was primarily attributable to dolphin and dock work decreases of $1,161,000; engine parts and engine repairs expense decreases of $1,171,000; life raft inspections and renewals decreases of $117,000; and repairs to office and terminal equipment decreases of $73,000; while vessel dry-dock expense increased by $1,161,000; miscellaneous vessel repairs increased by $108,000; and software repairs increased by $164,000.

Depreciation and amortization expense increased in 2014 versus 2013 by approximately $177,000, or 1.8%. This increase was primarily attributable to the addition of a full year's depreciation for Phase I of the Palmer Avenue Parking Lot Re-Development project and a partial year's depreciation for Phase II of the Palmer Avenue Parking Lot Re-Development project.

Vessel operating expenses decreased by approximately $489,000, or 2.1% versus 2013. This decrease was chiefly due to lower vessel payroll as well as lower fuel oil expense. Vessel payroll expense in 2014 decreased by $119,000 or 0.9% versus 2013 payroll expense. Vessel fuel oil expense, including hedging premiums and commissions, was $8,748,000, which was $355,000 or 3.9% lower in 2014 than in 2013. The average cost per gallon of fuel used operating in 2014 was $3.142, which represents a decrease of 3.3% over the average cost per gallon of fuel used in 2013 of $3.249.

Average Cost per Gallon of Vessel Fuel Oil Used
(Including Net Hedge Premiums)



During 2014, the Authority operated 22,107 vessel trips, which represented an increase of 57 trips, or 0.3% versus 2013.

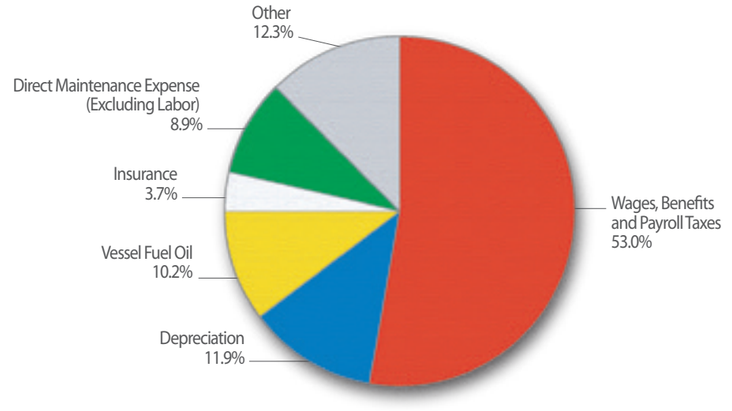
FINANCIAL ANALYSIS...continued
Operating Expenses...continued

Expenses related to the Operation of Terminals and Parking Lots increased in 2014 versus 2013 by approximately $376,000, or 3.7%. This increase was primarily attributed to a 3.2% or $259,000 increase in payroll costs; a $39,000 or 16.2% increase in police and security cost; and a $26,000 or 20.8% increase in water expenses.

Expenses to operate Reservations and Customer Service increased in 2014 versus 2013 by approximately $47,000, or 1.8%. This increase was primarily attributed to higher advertising expense and other traffic expense of $76,000 or 6.1% along with a $26,000 or 2.2% decrease in payroll expense.

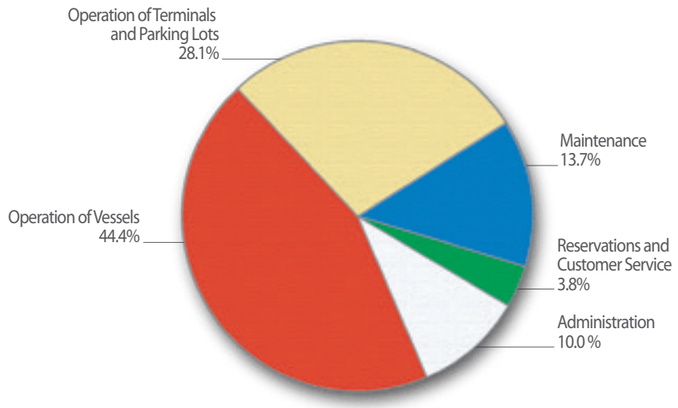
General and administration expense, which includes insurance, payroll taxes, rents, pension and health care costs, increased by approximately $237,000 in 2014, or 0.9% versus 2013. Increases in pension expense of $277,000 or 6.5%; credit card processing fees of $96,000 or 2.9%; and payroll expenses of $86,000 or 2.9% were partially offset by decreases of $105,000 or 1.5% in health care expense and $190,000 or 19.6% in unemployment contributions.

The major sources of operating expenses for the year ended December 31, 2014, were as follows:



FINANCIAL ANALYSIS...continued
Operating Expenses...continued

53% of the Authority's operating expenses in 2014 were attributed to wages and the cost of employee benefits. The Authority's payroll in 2014 was distributed to the following functions:


Operation of Terminals and Parking Lots 28.1%
Maintenance 13.7%
Operation of Vessels 44.4%
Reservations and Customer Service 3.8%
Administration 10.0 %

Comparison of Financial Condition at December 31, 2013 and 2012

The Authority's total assets and liabilities were $173,474,364 and $84,434,241, respectively, as of December 31, 2013, as compared to $173,732,366 and $88,935,723, respectively, at December 31, 2012. The Authority's deferred outflows of resources were $64,157 and $119,147, for the years ended December 31, 2013 and 2012, respectively. The net position as of December 31, 2013, was $89,104,280, a 4.9% increase from the prior fiscal year-end.

The increase in total net position was $4,188,490 for the year ended December 31, 2013, up from the $3,866,611 increase in total net position posted in 2012. Income before capital grants and contributions; income from special-purpose restricted funds; and the special item for pension merger in 2013 increased $7,189, or 0.3%, compared to the prior year.

The increase in income before capital grants and contributions; income from special-purpose restricted funds; and the special item for pension merger was primarily attributed to a $4,751,114, or 5.6% increase in the Authority's total operating revenues. Total operating expenses for the year ended December 31, 2013 increased by $5,163,350, or 6.4% versus the previous year while nonoperating expenses decreased by $419,425, or 24.1%. These changes are discussed in greater detail in the following sections.

During 2013, the Steamship Authority was awarded grants under the Ferry Boat Discretionary Program, the Port Security Program and from the Federal Emergency Management Agency (FEMA) Public Assistance (PA) Program. These awards are recorded under the heading Capital Grants and Contributions in the Statements of Revenues, Expenses and Changes in Net Position.

FINANCIAL ANALYSIS...continued

Operating Revenues

The Steamship Authority's total operating revenues in 2013 were $90,123,372. Total operating revenues increased by approximately $4,751,000 or 5.6% for the year ended December 31, 2013. In order to ensure sufficient income to meet the cost of service in 2013, the Authority Members approved certain rate increases that became effective January 1, 2013.

The number of passengers carried increased by 43,711 or 1.6% in 2013 from 2012. Ridership on the conventional service increased by 13,049 riders or 0.5%, while passenger traffic carried on the *M/V Iyanough* increased by 30,662 passengers or 11.5% for the year as compared to 2012. In addition, the average revenue per passenger increased from $9.82 in 2012 to $10.06 in 2013 due, in part, to the increase in riders on the high-speed service as well as the rate increases which became effective January 1, 2013. Total passenger revenues in 2013 were $28,646,065, an increase of 4.1% versus the previous year.

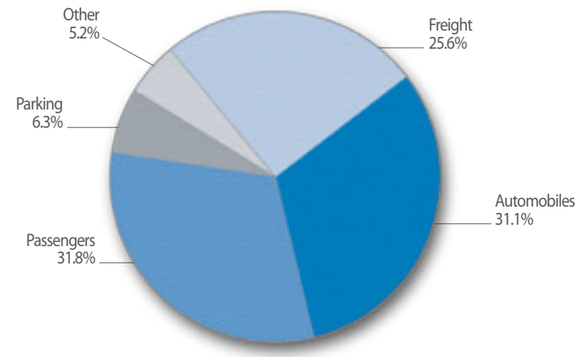
The number of automobiles carried increased by 2,436 or 0.5% in 2013 versus 2012. The average revenue per automobile increased from $60.77 in 2012 to $61.92 in 2013 due, in part, to a change in the mix of automobiles carried on the Martha's Vineyard and Nantucket routes as well as the rate increases which became effective January 1, 2013. Total automobile revenues in 2013 were $28,004,478, an increase of 2.4% versus the previous year.

The number of trucks carried increased by 8,391 or 5.5% in 2013 from 2012 traffic levels. The average revenue per truck increased from $133.71 in 2012 to $142.36 during 2013 due, in part, to an overall increase in trucks carried to Nantucket and Martha's Vineyard as well as the rate increases which became effective January 1, 2013. Total freight revenues in 2013 were $23,083,056, an increase of 12.3% versus the previous year.

Parking revenue in 2013 increased by approximately $145,000 from 2012, primarily as a result of an increase in cars parked at the Hyannis area lots as well as the rate increases which became effective January 1, 2013. The total number of cars parked increased by 103 or 0.1% versus 2012. Total parking revenues in 2013 were $5,658,267, an increase of 2.6% versus the previous year.

Other miscellaneous operating revenues increased by approximately $285,000 or 6.4% in 2013, primarily due to increases in cancellation penalties and miscellaneous service charges for driver services.

The major sources of operating revenues for the year ended December 31, 2013, were as follows:



FINANCIAL ANALYSIS...continued

Operating Expenses

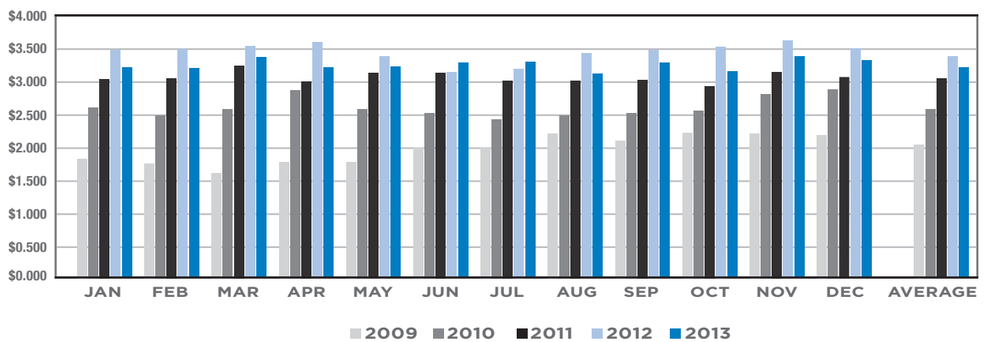
The Authority's total operating expenses in 2013 were $85,963,747; in 2012, total operating expenses were $80,800,397. Total operating expenses in 2013 were $5,163,350, or 6.4% higher than the previous year. Increases in maintenance expense, wages and benefits, depreciation expense, and utilities were partially offset by lower vessel fuel oil costs, insurance expense and advertising expenses, compared to the prior year.

Maintenance expense increased in 2013 versus 2012 by approximately $4,579,000, or 45.1%. The increase was primarily attributable to dolphin and dock work increases of $1,955,000; vessel dry-dock expense increases of $1,114,000; engine parts and engine repairs expense increases of $486,000; miscellaneous vessel repairs increases of $472,000 and life raft inspections and renewals increases of $164,000. The dolphin and dock work increase was primarily attributed to the repairs to the Oak Bluffs pier for Hurricane Sandy damage.

Depreciation and amortization expense increased in 2013 versus 2012 by approximately $225,000, or 2.3%. This increase was primarily attributable to the addition of a full year's depreciation for Phase II of the *M/V Eagle*'s Mid-Life Refurbishment project.

Vessel operating expenses decreased by approximately $619,000, or 2.6% versus 2012. This decrease was chiefly due to lower vessel payroll as well as lower fuel oil expense. Vessel payroll expense in 2013 decreased by $261,000 or 1.9% versus 2012 payroll expense. Vessel fuel oil expense, including hedging premiums and commissions, was $9,103,000, which was $249,000 or 2.7% lower in 2013 than in 2012. The average cost per gallon of fuel used operating in 2013 was $3.249, which represents a decrease of 5.0% over the average cost per gallon of fuel used in 2012 of $3.419.

Average Cost per Gallon of Vessel Fuel Oil Used
(Including Net Hedge Premiums)



During 2013, the Authority operated 22,050 vessel trips, which represented an increase of 409 trips, or 1.9% versus 2012.

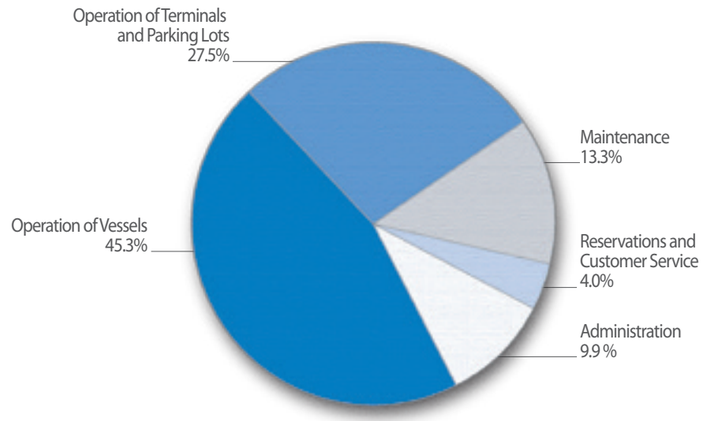
FINANCIAL ANALYSIS...continued
Operating Expenses...continued

Expenses related to the Operation of Terminals and Parking Lots increased in 2013 versus 2012 by approximately $400,000, or 4.1%. This increase was primarily attributed to a 4.5% or $354,000 increase in payroll costs; a $76,000 increase in utilities cost; and a $15,000 decrease in telephone expenses.

Expenses to operate Reservations and Customer Service decreased in 2013 versus 2012 by approximately $70,000, or 2.7%. This decrease was primarily attributed to lower advertising expense and other traffic expense of $54,000 along with a $12,000 decrease in payroll expense.

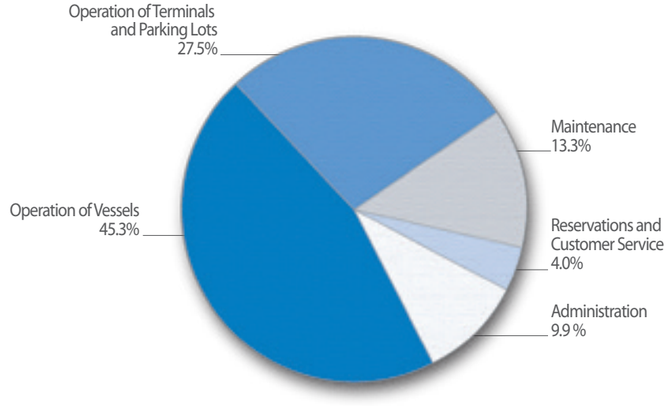
General and administration expense, which includes insurance, payroll taxes, rents, pension and health care costs, increased by approximately $649,000 in 2013, or 2.7% versus 2012. Increases in pension expense of $355,000; unemployment contributions of $195,000; credit card processing fees of $81,000; and payroll expenses of $101,000 were partially offset by a $150,000 decrease in insurance and casualties.

The major sources of operating expenses for the year ended December 31, 2013, were as follows:


Operation of Terminals and Parking Lots 27.5%
Maintenance 13.3%
Reservations and Customer Service 4.0%
Administration 9.9 %
Operation of Vessels 45.3%

FINANCIAL ANALYSIS...continued
Operating Expenses...continued

Over 52% of the Authority's operating expenses in 2013 were attributed to wages and the cost of employee benefits. The Authority's payroll in 2013 was distributed to the following functions:


Operation of Terminals and Parking Lots 27.5%
Maintenance 13.3%
Reservations and Customer Service 4.0%
Administration 9.9 %
Operation of Vessels 45.3%

Special-Purpose Restricted Funds and Fund Transfers in 2014

The Authority's Enabling Act requires revenue derived from its operation to be set aside each month in a specific order and in amounts as follows:

(1) to the Operations Fund, an amount sufficient to pay the cost of maintenance, repair, and operation of the Steamship Line for the current month and the next ensuing month, and to maintain working capital for such purposes in an amount not exceeding one thirty-sixth of the operating budget for the then-current fiscal year;

(2) to the Sinking Fund, an amount sufficient to provide for the payment of the interest on and for the amortization and payment of the principal of all bonds as the same shall become due and payable;

(3) to the Property Replacement Fund, such amount as the Authority may deem necessary or advisable for depreciation of property and for obsolescence and losses in respect to property sold, destroyed, or abandoned, and for improvements to, and acquisitions of, real and personal property (the Authority's current policy is to limit any transfers to the Property Replacement Fund in any given year to the amount of the prior year's depreciation expense);

(4) to the Reserve Fund, an amount sufficient to maintain the fund at a level equal to the greater of 5% of the principal amount of all bonds outstanding, exclusive of bonds considered as defeased, or $600,000, whichever is greater; and

(5) to the Bond Redemption Fund, all of the remaining revenue to be used within a reasonable time for the purchase or redemption of bonds or, in the Authority's discretion, to be transferred to the Property Replacement Fund or to the Capital Improvement Fund to be used for any purposes for which bonds may be issued.

FINANCIAL ANALYSIS...continued
Special-Purpose Restricted Funds and Fund Transfers in 2014...continued

The Authority's Sinking Fund balance at December 31, 2014, was $6,171,742, including income from investments of $9,076 during 2014. The Authority's cash flow during 2014 allowed for transfers to be made to the Sinking Fund to meet the scheduled bond interest payment of $964,456 on September 1, 2014, and to provide for the payment of bond interest and principal due on March 1, 2015, in the amount of $425,406 and $5,740,000, respectively. In addition, $539,050 in accrued interest due for the 2004 Series B Steamship Bonds was paid when these bonds were refunded in 2014.

In addition, $9,962,523 was transferred from the Operations Fund to the Property Replacement Fund, an increase of $1,362,448 over the previous year's transfers. Disbursements from the Property Replacement Fund in 2014, totaling $11,936,724, were comprised of the following:

Acquisition of Property on Thomas Landers Road Falmouth, MA	$ 3,538,498
Palmer Avenue Parking Lot Re-Development – Phase II	2,860,009
Design & Engineering of the *M/V Woods Hole*	1,428,920
Network Upgrades and Server Replacements	1,043,968
Shuttle Buses (4), Maintenance Vehicles (4) and Tow Motors (3)	676,090
Acquisition of Property on School Street Hyannis, MA	537,879
Design & Engineering for Thomas Landers Parking Facility	481,167
M/V Iyanough Sewer Pump Out Modifications	480,795
M/V Gay Head Sewer Pump Out Modifications	247,859
M/V Nantucket Sewer Pump Out Modifications	236,026
M/V Governor Sewer Pump Out Modifications	162,869
Other miscellaneous projects under $100,000, individually	242,644

At December 31, 2014, the Property Replacement Fund balance was $13,798,170, including income earned from investments of $26,207 during 2014.

FINANCIAL ANALYSIS...continued
Special-Purpose Restricted Funds and Fund Transfers in 2014...continued

The Authority's Reserve Fund balance at December 31, 2014, was $2,234,250, including income from investments of $4,616 during 2014. $412,866 was transferred from the Reserve Fund to the Bond Redemption Fund during 2014.

The Bond Redemption Fund balance was $8,268,449 at December 31, 2014, including income from investments of $9,213 during 2014. $3,505,642 was transferred from the Operations Fund to the Bond Redemption Fund during 2014. In addition, $412,866 was transferred from the Reserve Fund to the Bond Redemption Fund.

The Authority's Capital Improvement Fund balance as of December 31, 2014, was $215,524, including income from investments of $388. During 2014, the net proceeds of the 2014 Series A Bond issue, totaling $80,203, were deposited in the Capital Improvement Fund. During 2014, disbursements from the Capital Improvement Fund totaled $160,193. Fund disbursements in 2014 were for the acquisition of land located on Thomas Landers Road in Falmouth, Massachusetts. Unexpended proceeds from Steamship Bonds are reported as assets of the Capital Improvement Fund.

Investment income from the special-purpose restricted funds amounted to $40,424 during 2014, excluding income from investments in the Sinking Fund of $9,076.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's capital assets as of December 31, 2014, amounted to $128,428,329, net of accumulated depreciation. The Authority's investment in capital assets includes vessels, buildings and structures, office and terminal equipment, motor vehicles, land, leasehold improvements, and construction projects in progress. During 2014, the Authority invested $4,552,096 in various capital assets and an additional $9,162,564 was invested in construction projects in progress. Capital asset additions were funded through the Authority's operations funds and special-purpose restricted funds.

During 2014, the Steamship Authority recognized a net loss on the sale of assets of $17,326, which is reported as nonoperating miscellaneous revenues and expenses.

More detailed information regarding the Authority's capital assets activities for 2014 can be found in the notes to the financial statements (Note 2).

Debt Administration

The Authority is currently authorized under the provisions of the Enabling Act, as amended, to issue bonds in an amount not to exceed $100,000,000 outstanding at any one time. The Authority's Enabling Act further provides that if at any time any principal or interest is due or about to become due on the Authority's bonds and the funds to pay the same are not available, the Authority shall certify to the State Treasurer the amount required to meet such obligations and the Commonwealth shall pay over to the Authority the amount so certified. In the opinion of the Authority's bond counsel, the obligation of the Commonwealth of Massachusetts (the "Commonwealth") to pay the required amount to the Authority is a general obligation of the Commonwealth and the full faith and credit of the Commonwealth is pledged to make such payment. The Commonwealth has never been called upon to make payments to the Authority to meet such obligations under the provisions of the Enabling Act.

CAPITAL ASSETS AND DEBT ADMINISTRATION...continued
Debt Administration...continued

The Authority made scheduled principal payments of $5,505,000 during 2014. In 2013, the Authority made scheduled principal payments of $5,275,000. The total amount of bonds outstanding, net of unamortized premiums of $3,285,649, was $44,685,000 as of December 31, 2014. At December 31, 2014, there were no bond anticipation notes outstanding.

More detailed information regarding the Authority's debt administration activities for 2014 can be found in the notes to the financial statements (Note 3).

ECONOMIC FACTORS

The Authority's traffic statistics for the past five years are as follows:

	2010	2011	2012	2013	2014
Passengers	2,736,147	2,712,047	2,802,980	2,846,691	2,893,851
Automobiles	438,515	439,721	449,850	452,286	457,682
Trucks	156,636	154,380	153,757	162,148	166,577
Cars parked	163,418	160,699	169,513	169,616	172,499
Trips made	21,260	21,476	21,641	22,050	22,107
Nautical Miles	315,192	318,724	319,428	326,968	327,292

Demand for the Authority's services is mainly affected by the overall economic activity on Martha's Vineyard and Nantucket, both seasonally and year-round. The economic activity is a reflection of the overall construction on the islands and other factors, such as weather-related conditions, capacity constraints, and operational limitations, which can also have an impact on the Authority's annual ridership volumes.

In order to ensure sufficient income to meet the cost of service in 2015, the Authority Members approved certain rate increases, effective January 5, 2015, that are expected to raise $1,900,000 in additional operating revenue based on 2014 traffic volumes. These rate increases were needed to offset the expected increases in operating expenses, primarily vessel fuel oil expense, wages, benefits and maintenance expense.

REQUESTS FOR INFORMATION

This report is intended to provide an overview of the Authority's financial condition. Questions concerning any of the information in this report or requests for additional information should be addressed to the Authority's Treasurer/Comptroller, P.O. Box 284, Woods Hole, MA 02543.

Statements of Net Position
December 31, 2014 and 2013

ASSETS	2014	2013
CURRENT ASSETS:		
Cash and cash equivalents	$ 10,043,268	$ 10,770,605
Receivables, net	1,524,690	1,709,396
Grants receivable	172,637	1,656,802
Receivable from the Town of Falmouth	100,000	196,395
Inventories	654,513	704,820
Prepaid insurance and other	2,831,600	2,732,557
Prepaid fuel hedge	319,833	303,069
TOTAL CURRENT ASSETS	**15,646,541**	18,073,644
SPECIAL-PURPOSE RESTRICTED FUNDS:		
Cash and cash equivalents:		
Sinking fund:		
Current bond maturities and interest	6,171,742	6,586,569
Redemption of bonds	8,268,449	4,340,728
Property replacement fund	13,798,170	15,746,164
Reserve fund	2,234,250	2,642,500
Capital improvement fund	215,524	295,127
TOTAL SPECIAL-PURPOSE RESTRICTED FUNDS	**30,688,135**	29,611,088
CAPITAL ASSETS:		
Vessels	117,382,923	116,086,042
Terminal buildings and equipment	96,434,036	94,763,487
Land and land improvements	28,591,268	23,510,404
Construction in progress	8,828,231	4,203,545
Less - accumulated depreciation	(122,808,129)	(112,773,846)
TOTAL CAPITAL ASSETS, NET	**128,428,329**	125,789,632
TOTAL ASSETS	**174,763,005**	173,474,364
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflow loss from advance refunding	9,168	64,157
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 174,772,173**	$ 173,538,521

See notes to financial statements.

Statements of Net Position
December 31, 2014 and 2013

LIABILITIES AND NET POSITION	2014	2013
CURRENT LIABILITIES:		
Accounts payable	$ 4,803,261	$ 5,586,537
Accrued wages, vacation pay and expenses	3,569,961	3,876,552
Unearned revenue	2,839,050	2,406,922
Pension withdrawal obligation	446,330	429,670
TOTAL CURRENT LIABILITIES	**11,658,602**	12,299,681
LIABILITIES PAYABLE FROM SPECIAL-PURPOSE RESTRICTED FUNDS:		
Accrued interest on Steamship Bonds	111,026	724,742
Current portion of long-term debt	5,740,000	5,505,000
TOTAL LIABILITIES PAYABLE FROM SPECIAL-PURPOSE RESTRICTED FUNDS	**5,851,026**	6,229,742
NONCURRENT LIABILITIES:		
Long-term debt, net of current portion	42,230,649	48,692,017
Net pension obligations	1,771,706	1,611,534
Other postemployment benefits	964,986	866,074
Pension withdrawal obligations	14,288,864	14,735,193
TOTAL NONCURRENT LIABILITIES	**59,256,205**	65,904,818
TOTAL LIABILITIES	**76,765,833**	84,434,241
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflow gain from advance refunding	587,044	-
NET POSITION:		
Net investment in capital assets	79,879,804	71,656,772
Restricted	30,577,109	28,886,346
Unrestricted	(13,037,617)	(11,438,838)
TOTAL NET POSITION	**97,419,296**	89,104,280
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$ 174,772,173**	$ 173,538,521

See notes to financial statements.

Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2014 and 2013

	2014	2013
OPERATING REVENUES:		
Passenger	$ 29,447,793	$ 28,646,065
Automobile	28,441,284	28,004,478
Freight	24,460,534	23,083,056
Parking	6,373,395	5,658,267
Other	5,059,593	4,731,506
TOTAL OPERATING REVENUES	**93,782,599**	90,123,372
OPERATING EXPENSES:		
Operation of vessels	23,068,732	23,557,758
Operation of terminals and parking lots	10,415,341	10,039,574
Maintenance	13,791,834	14,743,682
Reservations, advertising, and other traffic	2,618,679	2,571,636
Depreciation and amortization	10,139,777	9,962,523
General and administrative	25,325,316	25,088,574
TOTAL OPERATING EXPENSES	**85,359,679**	85,963,747
OPERATING INCOME	**8,422,920**	4,159,625
NONOPERATING (EXPENSES) REVENUES:		
Interest on bonds and other obligations	(2,542,977)	(2,766,703)
Miscellaneous revenue	1,933,151	1,742,870
Miscellaneous expense	(80,385)	(296,988)
TOTAL NONOPERATING (EXPENSES) REVENUES	**(690,211)**	(1,320,821)
Income before capital grants and contributions, income from special-purpose restricted funds and special item - Teamsters pension merger	7,732,709	2,838,804
Capital grants and contributions	541,883	2,313,421
Income from special-purpose restricted funds	40,424	36,265
Special item - Teamsters pension merger	-	(1,000,000)
CHANGE IN NET POSITION	**8,315,016**	4,188,490
NET POSITION, Beginning of year	**89,104,280**	84,915,790
NET POSITION, End of year	**$ 97,419,296**	$ 89,104,280

See notes to financial statements.

Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Payments from customers	$ 94,236,674	$ 90,176,800
Payments to employees for services	(30,510,430)	(30,229,657)
Payments to suppliers and contractors	(45,525,424)	(44,793,215)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**18,200,820**	15,153,928
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Principal payments on withdrawal obligations	(429,670)	(413,633)
Principal payments on merger obligations	-	(1,000,000)
Receipts from other funds and license activities	1,865,517	1,413,096
NET CASH PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES	**1,435,847**	(537)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on Steamship Bonds	(28,270,000)	(5,275,000)
Proceeds from capital debt	22,881,697	-
Interest paid	(2,531,373)	(2,197,877)
Interest paid on withdrawal liability	(570,331)	(586,367)
Proceeds from sales of capital assets	918,860	37,596
Capital expenditures	(13,794,991)	(6,456,829)
Capital grant received	2,026,048	1,616,067
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	**(19,340,090)**	(12,862,410)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	12,709	15,154
Interest from special-purpose restricted funds	40,424	36,265
NET CASH PROVIDED BY INVESTING ACTIVITIES	**53,133**	51,419
NET INCREASE IN CASH AND CASH EQUIVALENTS	**349,710**	2,342,400
CASH AND CASH EQUIVALENTS, Beginning of year	**40,381,693**	38,039,293
CASH AND CASH EQUIVALENTS, End of year	**$ 40,731,403**	$ 40,381,693
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 8,422,920	$ 4,159,625
Depreciation and amortization	10,139,777	9,962,523
Changes in assets and liabilities:		
Receivables	21,947	(194,462)
Inventories	50,307	86,719
Prepaid insurance and other and prepaid fuel hedge	(115,808)	(118,318)
Accounts payable	(702,944)	984,683
Accrued wages, vacation pay, and expenses	(306,591)	(393,419)
Other postemployment benefits	98,912	122,819
Net pension obligations	160,172	295,868
Unearned revenue	432,128	247,890
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$ 18,200,820**	$ 15,153,928

Supplemental disclosure of noncash transactions:

At December 31, 2014 and 2013, the Authority had capital expenditures in the amount of $945,427 and $1,025,759, respectively, that were included in accounts payable.

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Woods Hole, Martha's Vineyard and Nantucket Steamship Authority (the "Authority") is a public instrumentality created by the legislature of the Commonwealth of Massachusetts under Chapter 701 of the Acts of 1960, as amended (the "Act"). The Authority has no stockholders or equity holders.

Measurement Focus, Basis of Accounting, and Financial Reporting Presentation

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government entities. The Governmental Accounting Standards Board (GASB) codification section 2100, is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Under these standards, the Authority is defined as a special-purpose governmental entity engaged only in business-type activities.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized at the time transportation, parking, and other services are provided. Unearned revenue represents cash received in advance of future service.

Deferred Inflows/Outflows of Resources

In addition to assets and liabilities, the balance sheet will sometimes report a separate section for deferred inflows/outflows of resources. For current refundings, resulting in defeasance of debt reported by business-type activities, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or new debt, whichever is shorter. The Authority reports its gain or loss on advance refundings within these categories.

Net Position

Net position represents the residual interest in the Authority's assets plus deferred outflows of resources, less liabilities and deferred inflows of resources, and consists of: (1) net investment in capital assets, (2) amounts restricted, and (3) amounts that are unrestricted. Net investment in capital assets consists of capital assets reduced by accumulated depreciation and by any outstanding debt incurred to acquire, construct or improve those assets, excluding unexpended proceeds. Net position is reported as restricted when there are third party limitations (statutory, contractual or bond covenant) on its use. Unrestricted net position consists of all net position that does not meet the definition of either of the other two components.

Transfers and Use of Funds

The Act and the provisions of the Bond Resolutions with the Authority's bondholders govern the disposition of revenue and prescribe certain accounting practices of the Authority, which include the conditions for transfers between the various accounts and the use of such funds. The Act was amended in 1985 to increase the maximum amount of funds allowed in the Operations Fund and Reserve Fund.

Notes to Financial Statements
Years Ended December 31, 2014 and 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Cash and Cash Equivalents

Cash includes cash on hand, amounts in demand deposits and cash equivalents, which are short-term, highly liquid securities with known market values. For purposes of the accompanying statements of cash flows, the Authority considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments

The Authority's investments are reported at fair value using quoted market price or the best available estimate thereof. Fair value is defined by GASB Statement No. 31, *Certain Investments and External Investment Pools*, as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. All investment income, including changes in the fair value of investments, is reported as revenue in the accompanying statements of revenues, expenses and changes in net position. The Authority's investments in 2014 and 2013 qualified to be reported as cash equivalents.

Inventories

Materials and supplies are stated at cost on a first-in, first-out basis.

Capital Assets

Vessels, terminal property, and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method based on the estimated service lives of the related assets. The Authority's capitalization threshold for a single item is $5,000 or $10,000 for a group of items. The estimated service lives are as follows:

Vessels	10-30 years
Buildings and structures:	
Buildings and wharves	30 years
Sheds, fences and pavement	10-20 years
Office and terminal equipment:	
Computer equipment	3-5 years
Other	10 years
Motor vehicles	5 years
Leasehold improvements	Shorter of remaining term of lease or estimated useful life

The Authority capitalizes interest costs incurred in the construction of certain qualifying assets. For the years ended December 31, 2014 and 2013, the Authority incurred interest expense from operations of $2,542,977 and $2,766,703, respectively. Capitalized interest was $38,288 and $52,220 in 2014 and 2013, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Accounts Receivable

Accounts receivable are reported net of an allowance for doubtful accounts. The Authority fully reserves for all receivables greater than 90 days. The allowance for doubtful accounts was $75,000 in 2014 and 2013, respectively.

Unamortized Bond Premiums and Discounts

Discounts on bonds and premiums on bonds are amortized using the straight-line method over the life of the related bond issue since the results are not significantly different from the effect interest method of amortization.

Risk Financing and Related Insurance Issues

The Authority is self-insured with respect to medical benefits provided to certain employees and retirees. With respect to these medical benefits, the Authority purchases stop-loss insurance, which covers all incurred claims in excess of approximately $5,275,000 in the aggregate; up to a maximum aggregate benefit payment of $1,000,000 per person per year. The Authority purchases commercial insurance to cover all other risks of loss. During the current and previous three years, there have been no settlements in excess of insurance coverage maintained by the Authority.

Accrued Sick Leave and Vacation

Employees are granted sick leave and vacation in varying amounts. Upon retirement, termination, or death, certain employees are compensated for unused sick leave and vacation (subject to certain limitations) at their then-current rates of pay. The accumulated amount of sick and vacation leave is recorded as an expense and liability as the benefits accrue to employees.

Operating Revenues and Expenses

The Authority distinguishes operating revenues and expenses from nonoperating revenues and expenses in its statement of revenues, expenses and changes in net position. Operating revenues consists of those revenues earned from customers for passage of passengers and vehicles, from parking operations and ancillary activities such as concessions and driver services.

Operating expenses relate to the cost of providing those services and also include administration expenses and depreciation of capital assets. All other revenues and expenses that are not a direct result of the Authority's functions are considered nonoperating. Examples of nonoperating items include investment earnings, interest expense, gains and losses on the disposal of capital assets and licensing fees.

Unearned Revenue

Unearned revenue consists primarily of fares received from customers for future reservations. Such amounts are recognized as revenue in subsequent periods as they are earned.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant use of estimates includes the accrual for claims to be submitted under the Authority's self-funded health insurance and the allowance for uncollectible accounts.

Adoption of New Accounting Pronouncements

In January 2013, the GASB issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Authority implemented this statement during fiscal year 2014. The adoption of this standard did not have a material impact on the Authority's financial statements.

In April 2013, the GASB issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The Authority implemented this statement during fiscal year 2014. The adoption of this standard did not have a material impact on the Authority's financial statements.

The GASB has issued the following statements, which require adoption subsequent to December 31, 2014, and are applicable to the Authority. The Authority has not yet adopted these statements, and the implications on the fiscal practices and financial reports are being evaluated.

GASB STATEMENT NO.		ADOPTION REQUIRED IN FISCAL YEAR
67	*Financial Reporting for Pension Plans*	2015
68	*Accounting and Financial Reporting for Pensions*	2015
71	*Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB No. 68*	2015
72	*Fair Value Measurement and Application*	2016

2. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014, was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Capital assets, not being depreciated:				
Land	$ 22,031,179	$ 1,461,846	$ 3,619,018	$ 27,112,043
Construction in progress	4,203,545	9,162,564	(4,537,878)	8,828,231
Total capital assets, not being depreciated	26,234,724	10,624,410	(918,860)	35,940,274
Capital assets, being depreciated:				
Vessels	116,086,042	1,296,881	-	117,382,923
Buildings and structures	82,039,989	6,665	(112,398)	81,934,256
Office and terminal equipment	9,175,905	1,237,002	(10,422)	10,402,485
Motor vehicles	3,547,593	549,702	-	4,097,295
Leasehold improvements	1,479,225	-	-	1,479,225
Total capital assets, being depreciated	212,328,754	3,090,250	(122,820)	215,296,184
Less accumulated depreciation for:				
Vessels	(64,754,626)	(5,670,152)	-	(70,424,778)
Buildings and structures	(37,402,831)	(3,139,889)	95,071	(40,447,649)
Office and terminal equipment	(7,291,097)	(995,501)	10,423	(8,276,175)
Motor vehicles	(1,846,067)	(334,235)	-	(2,180,302)
Leasehold improvements	(1,479,225)	-	-	(1,479,225)
Total accumulated depreciation	(112,773,846)	(10,139,777)	105,494	(122,808,129)
Total capital assets, being depreciated, net	99,554,908	(7,049,527)	(17,326)	92,488,055
Total capital assets, net	**$ 125,789,632**	**$ 3,574,883**	**$ (936,186)**	**$ 128,428,329**

Capital asset activity for the year ended December 31, 2013, was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Capital assets, not being depreciated:				
Land	$ 21,044,458	$ 986,721	$ -	$ 22,031,179
Construction in progress	5,045,677	3,695,545	(4,537,677)	4,203,545
Total capital assets, not being depreciated	26,090,135	4,682,266	(4,537,677)	26,234,724
Capital assets, being depreciated:				
Vessels	115,499,749	632,638	(46,345)	116,086,042
Buildings and structures	79,213,209	23,860	2,802,920	82,039,989
Office and terminal equipment	8,643,803	667,454	(135,352)	9,175,905
Motor vehicles	3,048,697	703,505	(204,609)	3,547,593
Leasehold improvements	1,944,379	-	(465,154)	1,479,225
Total capital assets, being depreciated	208,349,837	2,027,457	1,951,460	212,328,754
Less accumulated depreciation for:				
Vessels	(58,943,081)	(5,841,283)	29,738	(64,754,626)
Buildings and structures	(35,110,966)	(3,066,180)	774,315	(37,402,831)
Office and terminal equipment	(7,403,323)	(741,009)	853,235	(7,291,097)
Motor vehicles	(1,757,856)	(290,154)	201,943	(1,846,067)
Leasehold improvements	(1,912,426)	(23,897)	457,098	(1,479,225)
Total accumulated depreciation	(105,127,652)	(9,962,523)	2,316,329	(112,773,846)
Total capital assets, being depreciated, net	103,222,185	(7,935,066)	4,267,789	99,554,908
Total capital assets, net	$ 129,312,320	$ (3,252,800)	$ (269,888)	$ 125,789,632

3. STEAMSHIP BONDS OUTSTANDING

The Steamship Bonds outstanding at December 31, are as follows:

	2014	2013
2003 Series A, including unamortized bond premium of $4,945 and $34,618 at December 31, 2014 and 2013, respectively, bearing interest at rates ranging from 2.50% to 4.50%, requiring annual payments of principal beginning March 1, 2004 and semiannual interest payments through March 1, 2015	$ 709,945	$ 1,414,618
2004 Series B, including unamortized bond premium of $0 and $680,972 at December 31, 2014 and 2013, respectively, bearing interest at rates ranging from 3.00% to 5.00%, requiring annual payments of principal beginning March 1, 2011 and semiannual interest payments through March 1, 2015	2,740,000	28,815,972
2005 Series A, including unamortized bond premium of $69,372 and $128,834 at December 31, 2014 and 2013, respectively, bearing interest at rates ranging from 2.95% to 5.00%, requiring annual payments of principal beginning March 1, 2008 and semiannual interest payments through March 1, 2016	3,009,372	4,438,834
2009 Series A, including unamortized bond premium of $117,381 and $136,416 at December 31, 2014 and 2013, respectively, bearing interest at rates ranging from 2.50% to 4.00%, requiring annual payments of principal beginning March 1, 2011 and semiannual interest payments through March 1, 2021	3,842,381	4,286,416
2009 Series B, including unamortized bond premium of $95,971 and $102,745 at December 31, 2014 and 2013, respectively, bearing interest at rates ranging from 2.00% to 4.00%, requiring annual payments of principal beginning March 1, 2011 and semiannual interest payments through March 1, 2029	8,565,971	8,977,745
2011 Series A, including unamortized bond premium of $221,283 and $263,432 at December 31, 2014 and 2013, respectively, bearing interest at rates ranging from 2.00% to 3.00%, requiring annual payments of principal beginning March 1, 2017 and semiannual interest payments through March 1, 2020	6,221,283	6,263,432
2014 Series A, including unamortized bond premium of $2,776,697 at December 31, 2014, bearing interest at rates ranging from 4.00% to 5.00%, requiring annual payments of principal beginning March 1, 2016 and semiannual interest payments through March 1, 2021	22,881,697	-
Total Steamship Bonds	**47,970,649**	54,197,017
Less bonds due within one year	**(5,740,000)**	(5,505,000)
Total Steamship Bonds – excluding current portion	**$ 42,230,649**	$ 48,692,017

3. STEAMSHIP BONDS OUTSTANDING...continued

2003 Series A Steamship Bonds — On March 1, 2003, the Authority issued $9,315,000 of 2003 Series A Steamship Bonds with interest rates ranging from 2.50% to 4.50%. The proceeds of the bonds were used to refund $3,260,000 of the Authority's 1992 Series B Bonds maturing in the years 2004 through 2007 and to advance refund $5,670,000 of the Authority's 1995 Series A Bonds maturing in the years 2006 through 2015 and to pay for costs of issuing the bonds. The portion of the bond proceeds used to refund the prior bond obligations was used to purchase U.S. Government obligations, which were deposited into an irrevocable trust to pay the scheduled principal and interest on the 1992 Series B Steamship Bonds and the 1995 Series A Steamship Bonds. As a result, these bonds are considered defeased by the Authority. Accordingly, the trust account assets and the liability for the defeased bonds have not been included in the Authority's financial statements. Prior refunded obligations outstanding at December 31, 2014 and 2013, totaled $715,000 and $1,390,000, respectively.

2004 Series B Steamship Bonds — On December 21, 2004, the Authority issued $31,150,000 of 2004 Series B Steamship Bonds with interest rates ranging from 3.00% to 5.00%. The proceeds were used for the following purposes: (i) for the design, construction, and delivery of a new 255-foot passenger/vehicle vessel, the *M/V Island Home*, with a capacity of approximately 1,200 passengers and 76 cars; and (ii) to pay the cost of issuance. On December 2, 2014, the Authority issued $20,105,000 of 2014 Series A Steamship Bonds. A portion of the bond proceeds were used to refund 2004 Series B Steamship Bonds maturing in the years 2016 through 2021.

2005 Series A Steamship Bonds — On October 6, 2005, the Authority issued $9,380,000 of 2005 Series A Steamship Bonds with interest rates ranging from 2.95% to 5.00%. The proceeds were used for the following purposes: (i) for the design, construction, and delivery of a new high-speed passenger-only vessel, the *M/V Iyanough*, with a capacity of approximately 350 passengers; and (ii) to pay the cost of issuance.

2009 Series A Steamship Bonds — On July 21, 2009, the Authority issued $5,000,000 of 2009 Series A Steamship Bonds with interest rates ranging from 2.50% to 4.00%. The proceeds of the bonds were used to refund $5,000,000 in bond anticipation notes, the proceeds of which were used: (i) for the reconstruction and refurbishment of the *M/V Nantucket*, including without limitation the reconstruction of the deck, the reconstruction of the bridge, and the refurbishment of the vessel's seating and eating areas; and (ii) to pay the cost of issuance.

2009 Series B Steamship Bonds — On December 1, 2009, the Authority issued $10,000,000 of 2009 Series B Steamship Bonds with interest rates ranging from 2.00% to 4.00%. The proceeds were used for the following purposes: (i) to acquire four (4) parcels of land located in Falmouth, Massachusetts, for parking and other purposes ("Project A"); (ii) the reconstruction of vessel berthing slips in Hyannis, Massachusetts, for operational efficiency purposes, including without limitation the reconstruction of dolphins, wharves, and transfer bridge and gangways ("Project B" and together with Project A, the "Projects"); and (iii) to pay the cost of issuance.

Notes to Financial Statements
Years Ended December 31, 2014 and 2013

3. STEAMSHIP BONDS OUTSTANDING...continued

2011 Series A Steamship Bonds — On December 13, 2011, the Authority issued $6,000,000 of 2011 Series A Steamship Bonds with interest rates ranging from 2.00% to 3.00%. The proceeds of the bonds were used for (i) the reconstruction and refurbishment of the *M/V Eagle*, including without limitation the replacement of decking, doors and windows; the reconstruction of the snack bar; refurbishment of the vessel's seating and eating areas and the installation of a marine evacuation slide; and (ii) to pay the cost of issuance.

2014 Series A Steamship Bonds — On December 2, 2014, the Authority issued $20,105,000 of 2014 Series A Steamship Bonds with interest rates ranging from 4.00% to 5.00%. The proceeds of the bonds were used to (i) refund $22,765,000 of the Authority's 2004 Series B Bonds maturing in the years 2016 through 2021; and (ii) to pay the cost of issuance. The portion of the bond proceeds used to refund the prior bond obligations was used to purchase U.S. Government obligations, which were deposited into an irrevocable trust to pay the scheduled principal and interest on the 2004 Series B Steamship Bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt, resulting in a net present value cash flow savings of $3.1 million and an overall economic gain (difference between the present values of the old and new debt service payments) of $2.6 million. The deposit with escrow agent for the refunding amounted to $23,304,050. As a result, these bonds are considered defeased by the Authority. Accordingly, the trust account assets and the liability for the defeased bonds have not been included in the Authority's financial statements. Prior refunded obligations outstanding at December 31, 2014 totaled $22,765,000.

3. STEAMSHIP BONDS OUTSTANDING...continued

Scheduled Debt Service Requirements

The annual scheduled debt service requirements of all Steamship Bonds outstanding at December 31, 2014, are as follows, exclusive of bonds defeased:

YEARS ENDING DECEMBER 31	PRINCIPAL PAYMENTS	INTEREST PAYMENTS	TOTAL PAYMENTS
2015	$ 5,740,000	$ 1,465,702	$ 7,205,702
2016	5,585,000	1,486,250	7,071,250
2017	5,805,000	1,260,575	7,065,575
2018	6,010,000	1,030,650	7,040,650
2019	6,225,000	780,800	7,005,800
2020-2024	11,930,000	1,297,338	13,227,338
2025-2029	3,390,000	350,000	3,740,000
TOTAL	**$ 44,685,000**	**$ 7,671,315**	**$ 52,356,315**

Principal payments reported above are exclusive of the deferred gain arising from prior bond defeasances of $587,044; deferred loss arising from prior bond defeasances of $(9,168); and unamortized bond premium of $3,285,649.

As of December 2014, the Authority had approved the construction of a new passenger/vehicle ferry, the *M/V Woods Hole*, and had authorized the issuance of up to $38,250,000 in Steamship Bonds to partially fund the project. These Steamship Bonds are expected to be issued in 2015.

Bonds payable activity for the year ended December 31, 2014, was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	DUE WITHIN ONE YEAR
Bonds payable:					
Steamship Bonds	$ 52,850,000	$ 20,105,000	$ (28,270,000)	$ 44,685,000	$ 5,740,000
Issuance premiums	1,347,017	2,776,697	(838,065)	3,285,649	-
Total bonds payable	**$ 54,197,017**	**$ 22,881,697**	**$ (29,108,065)**	**$ 47,970,649**	**$ 5,740,000**

Bonds payable activity for the year ended December 31, 2013, was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	DUE WITHIN ONE YEAR
Bonds payable:					
Steamship Bonds	$ 58,125,000	$ -	$ (5,275,000)	$ 52,850,000	$ 5,505,000
Issuance premiums	1,598,069	-	(251,052)	1,347,017	-
Total bonds payable	$ 59,723,069	$ -	$ (5,526,052)	$ 54,197,017	$ 5,505,000

4. LEASE COMMITMENTS

Operating Leases — The Authority has several noncancelable operating lease commitments at December 31, 2014, with terms in excess of one year. Future minimum lease payments under operating leases are as follows:

YEARS ENDING DECEMBER 31	
2015	$ 559,694
2016	369,694
2017	311,767
2018	311,767
2019	161,382
2020–2024	461,458
TOTAL	**$ 2,175,762**

Aggregate rental expense for the years ended December 31, 2014 and 2013, was $791,804 and $716,097, respectively.

5. DEPOSITS AND INVESTMENTS

The Steamship Authority's Board has the sole responsibility for establishing and revising investment policy. In June 2003, the Authority adopted a formal investment policy for all of its operations funds and special-purpose restricted funds. In March 2013, the Steamship Authority's Board reaffirmed the investment policy. The investment strategy is to invest substantially in short-term securities. Permitted investments will consist of obligations issued or secured by the U.S. Government or agencies of the U.S. Government and overnight repurchasing agreements with banks or in mutual funds composed of the above types of investments. The Authority can also invest in the Massachusetts Municipal Depository Trust (MMDT), a pooled money-market-like investment fund managed by the Commonwealth of Massachusetts and established under General Laws, Chapter 29, Section 38A. The Treasurer of the Commonwealth of Massachusetts oversees the financial management of the MMDT. A copy of the financial statements of the MMDT can be obtained from the Office of the State Treasurer, 1 Ashburton Place, Boston, MA 02110.

5. DEPOSITS AND INVESTMENTS...continued

Custodial Credit Risk

Custodial credit risk exists for cash deposits when, in the event of a failure of a depository financial institution, the Authority's deposits may not be recovered. The Authority does not have a formal policy with regard to custodial credit risk but generally invests in securities or financial institutions which have either short-term rating of "A" or government securities of "AAA." Bank deposits are Federal Depository Insurance Corporation (FDIC) or Massachusetts Depositors Insurance Fund (DIF) insured as of December 31, 2014. Bank trust and custody agreements include Pledged Holdings and Irrevocable Stand-by Letters of Credit issued by the various financial institutions as collateral for the Authority's deposits. The total amounts of Authority deposits in financial institutions, per the bank statements, at December 31, respectively, are as follows:

	2014	2013
Balance per banks	$ 10,993,484	$ 12,220,386
Deposits covered by:		
Federal Depository Insurance Corporation	(981,737)	(938,172)
Massachusetts Depositors Insurance Fund	(577,004)	(439,360)
Bank trust and custody agreements	(6,924,495)	(8,337,224)
TOTAL UNINSURED AND UNCOLLATERALIZED DEPOSITS	**$ 2,510,248**	$ 2,505,630

Interest Rate Risk and Credit Risk

Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. The Authority does not have a formal policy with regard to interest rate risk. The majority of the Authority's investments are in MMDT, a pooled money-market-like investment fund.

Credit risk exists when there is a possibility that the issuer of an investment may be unable to fulfill its obligations. The Authority does have a formal policy with regard to credit risk, as the diversity of the investment portfolio may be no more than 25% invested in securities of a single issuer, except for obligations of the U.S. Government.

Notes to Financial Statements
Years Ended December 31, 2014 and 2013

5. DEPOSITS AND INVESTMENTS...continued
Interest Rate Risk and Credit Risk...continued

The Authority maintains cash, cash equivalents, and investments available for use by all funds, in the manner provided below, as set forth by the Authority's Enabling Act, as amended.

The revenues derived from the operation of the Steamship Line are set aside in Revenue Funds. Monies in the Revenue Funds on the last day of the preceding month shall be transferred:

- ***To the Operations Fund*** — such amount, if available, as may be required to pay the cost of maintenance, repair, and operation of the Steamship Line for the current month and the next ensuing month and to maintain working capital for such purposes in an amount not to exceed one thirty-sixth of the operating budget for the then-current fiscal year;
- ***To the Sinking Fund*** — such amount, if any, as may be required for the payment of the interest on and the principal of all bonds as the same shall become due and payable;
- ***To the Property Replacement Fund*** — such amount, if any, as may be deemed necessary or advisable for depreciation of property and for obsolescence and losses with respect to property sold, destroyed, or abandoned (the Authority's current policy is to limit any transfers to the Property Replacement Fund in any given year to the amount of the prior year's depreciation expense);
- ***To the Reserve Fund*** — such amount, if any, as may be required to make the balance therein equal to 5% of the principal amount of all outstanding bonds, exclusive of bonds considered as defeased, or $600,000, whichever is greater; and
- ***To the Bond Redemption Fund*** — all of the remaining revenue to be used within a reasonable time for the purchase or redemption of bonds or, in the Authority's discretion, to be transferred to the Property Replacement Fund or to the Capital Improvement Fund to be used for any purposes for which bonds may be issued.

Neither the Enabling Act nor the bond resolutions place limitations on the nature of the deposits and investments of the Authority. The Authority's policies are to maintain deposits (including demand deposits, money markets, and certificates of deposit) in financial institutions and to make investments in U.S. Government securities.

5. DEPOSITS AND INVESTMENTS...continued

Cash and Cash Equivalents

The total amount of the Authority's cash and cash equivalents at December 31, respectively, are as follows:

	2014	2013
Cash, including trust and custody agreements	$ 7,648,059	$ 9,032,270
MMDT	33,083,344	31,349,423
TOTAL	**$ 40,731,403**	$ 40,381,693

Cash and cash equivalents reported in the accompanying balance sheets as of December 31, respectively, are as follows:

	2014	2013
Current assets, cash and cash equivalents	$ 10,043,268	$ 10,770,605
Special-purpose restricted funds	30,688,135	29,611,088
TOTAL	**$ 40,731,403**	$ 40,381,693

6. PENSION PLANS

The Authority provides retirement benefits to its employees through various defined benefit and defined contribution pension plans.

Defined Benefit Pension Plans Sponsored by the Authority

Description of Plans

Nonunion Plan

The Authority has in effect a single employer, defined benefit pension plan established in 1968 for eligible nonunion employees (the "Nonunion Plan"). The plan reporting date is February 28th of each year.

Administration of the Plan

The Nonunion Plan is administered by the Authority. The Trustee, Principal Mutual Life Insurance Company, holds the investment securities of the Nonunion Plan and executes related transactions under custodial agreements with the Nonunion Plan and the Authority. Separate financial statements are not issued for the Nonunion Plan.

Participation and Vesting

Employees not under collective bargaining agreements whose customary employment with the Authority is for at least 30 hours per week and are employed or expected to be employed on a year-round basis may participate in the Nonunion Plan.

Participants' benefits become fully vested after five years of service in the Nonunion Plan. Benefit payments are made to participants of the Nonunion Plan or their beneficiaries in varying amounts according to the provisions of the Nonunion Plan.

6. PENSION PLANS...continued
Defined Benefit Pension Plans Sponsored by the Authority...continued
Nonunion Plan...continued

Plan Amendment and Termination

The Nonunion Plan may be amended or terminated in whole or in part, at any time by the Authority, provided that no such modification, amendment, or termination shall be made that would deprive a current participant of rights or benefits provided under the Nonunion Plan.

Normal Retirement Benefits

The normal form of retirement benefit is a monthly annuity payable for life with payments guaranteed for five years (optional forms of payment may be elected in advance of retirement), commencing on the normal retirement date. The normal retirement date for participants who joined the Nonunion Plan prior to March 1, 1992, is the earliest of (a) attainment of age 65 and completion of 20 years of service, (b) attainment of age 62 and completion of 25 years of service, or (c) attainment of age 60 and completion of 30 years of service. The amount of benefits is equal to 75% of average compensation for the last three years multiplied by an accrued benefit adjustment (as defined in the Nonunion Plan). The normal retirement date for participants who joined the Nonunion Plan on or after March 1, 1992, is the earliest of (a) attainment of age 65 and completion of five years of service, (b) attainment of age 62 and completion of 25 years of service, or (c) attainment of age 60 and completion of 30 years of service. The amount of benefits is equal to 2.5% of average compensation multiplied by years of service (maximum of 30 years). The normal retirement date for participants who join the Nonunion Plan on or after March 1, 2011, is the attainment of age 65 and completion of 10 years of service. The amount of benefits is equal to 2.0% of average compensation multiplied by years of service (maximum of 30 years). Average compensation is defined as average monthly pay received during the three-year period preceding the normal retirement date.

Participants in the Nonunion Plan prior to March 1, 1992, are entitled to a benefit based upon the greater of the benefits allowed under the plan as it existed prior to March 1, 1992 or the benefits allowed to participants who join on or after March 1, 1992.

As of March 1, 2002, the Nonunion Plan was amended to include an annual cost of living increase to participants receiving monthly payments under the Nonunion Plan. The cost of living increase is based on half of the percentage increase in the consumer price index from year to year with the aggregate cost of living increase not to exceed 50% of the value of the participant's benefit as of the annuity starting date.

As of March 1, 2011, the Nonunion Plan was amended to exclude an annual cost of living increase to participants receiving monthly payments under the Nonunion Plan who became participants on or after March 1, 2011. No lump sum optional benefit is available for participants who became participants on or after March 1, 2011.

Disability Benefits

There are no disability benefits payable under the Nonunion Plan.

6. PENSION PLANS...continued
Defined Benefit Pension Plans Sponsored by the Authority...continued
Nonunion Plan...continued

Early Retirement Benefits

Early retirement benefits are in the same form as normal retirement benefits and commence on the early retirement date. The early retirement date must be within the 10-year period preceding the normal retirement date. Benefits are reduced for each year that the early retirement date precedes the normal retirement date.

Funding Policy and Annual Pension Cost (APC)

The contribution requirements of members and the Authority are established by the Authority. Participants in the Nonunion Plan are required to make contributions equal to 3% of their monthly compensation. The Authority currently contributes 15% of annual covered payroll for the Nonunion Plan. The annual required contribution (ARC) for the current year was determined as part of the actuarial valuation as of March 1, 2014, for the Nonunion Plan, using the entry age normal-frozen initial liability method. The actuarial assumptions included (a) 6.75% investment rate of return for the Nonunion Plan, and (b) salary increases are assumed to vary by age according to Table S-5 from the Actuary's Pension Handbook, plus 1.75% per year until retirement for the Nonunion Plan. The actuarial value of assets was determined using market value adjusted by spreading the expected value minus the actual value over four years.

Annual Pension Cost and Net Pension Obligation

The Authority's annual pension cost and net pension obligation for the current year, as determined by the actuarial valuations based upon the individual plan's year, were as follows:

NONUNION PLAN:	FEBRUARY 28, 2014	FEBRUARY 28, 2013
Annual required contribution (ARC)	$ 1,029,818	$ 1,183,188
Interest on net pension obligation	108,779	86,337
Adjustment to annual required contribution	(212,242)	(130,782)
Annual pension cost (APC)	926,355	1,138,743
Contributions made	766,183	757,045
Change in net pension obligation	(160,172)	(381,698)
Net pension obligation, beginning of year	(1,611,534)	(1,229,836)
Net pension obligation, end of year	**$ (1,771,706)**	$ (1,611,534)

THREE-YEAR TREND INFORMATION

FISCAL YEARS ENDED	ANNUAL PENSION COST (APC)	PERCENTAGE OF APC CONTRIBUTED	NET PENSION OBLIGATION
NONUNION PLAN:			
February 29, 2012	$ 881,491	83.6%	$ 1,229,836
February 28, 2013	1,138,743	66.5	1,611,534
February 28, 2014	926,355	82.7	1,771,706

Notes to Financial Statements
Years Ended December 31, 2014 and 2013

6. PENSION PLANS...continued
Defined Benefit Pension Plans Sponsored by the Authority...continued
Nonunion Plan...continued

Funded Status and Funding Progress

As of March 1, 2014, the most recent actuarial valuation date, the Nonunion Plan was 79.8% funded. The actuarial accrued liability (AAL) for benefits was $24,756,583 and the actuarial value of assets was $19,755,867, resulting in an unfunded actuarial accrued liability (UAAL) of $5,000,716. The covered payroll (annual payroll of active employees covered by the plan) was $4,013,517, and the ratio of the UAAL to the covered payroll was 124.6%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, includes multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

In the March 1, 2014 actuarial valuation, the entry age normal-frozen initial liability actuarial cost method was used. The actuarial assumptions included (a) 6.75% investment rate of return (net of investment expenses), (b) projected salary increases from Table S-5 from the Actuary's Pension Handbook plus 1.75% per year, (c) the RP-2000 base table projected to 2014 using Scale AA, (d) cost of living adjustments of one-half of consumer price index for the prior calendar year, not to exceed 150% of original benefit, and (e) 5% adjusted for the rate adjustment for size and special charges, if applicable. The actuarial value of assets was determined using techniques that spread the expected value minus the actual value over a four-year period. The UAAL is being amortized as a level-dollar-closed period.

Licensed Deck Officers Plan

The Authority had in effect a single employer, defined benefit pension plan established in 1983 for the Authority's Licensed Deck Officers (the "L.D.O. Plan"). The L.D.O. Plan was terminated and merged into a multiemployer plan in December 2013.

6. PENSION PLANS...continued

Defined Contribution Plans Sponsored by the Authority

Licensed Deck Officers Plan

The Authority also has a defined contribution plan for its licensed deck officers. Prior to July 27, 2013, the Authority was required to contribute an amount equal to 10.75% of base weekly earnings for each employee. Effective July 27, 2013, the Authority is required to contribute an amount equal to 7.50% of base weekly earnings for each employee. The Authority's required and actual contributions aggregated $295,461 and $324,950 for 2014 and 2013, respectively.

Administration of the Plan

The Plan is administered by the Authority. The Trustee, Principal Mutual Life Insurance Company, holds the investment securities of the Plan and executes related transactions under custodial agreements with the Plan and the Authority.

Participation and Vesting

All licensed deck officers (captains, pilots, and mates) are eligible to participate in the Plan. Participants are 100% vested at all times.

Employee Contributions

No employee contributions are made under the Plan.

Parking Lot Employees & Shuttle Bus Drivers Plan

The Authority also has a defined contribution plan for its permanent parking lot employees/shuttle bus drivers. The Authority was required to contribute an amount equal to 5.5% of base weekly earnings for each permanent parking lot employee/shuttle bus driver prior to May 27, 2011. Effective May 28, 2011, the Authority is required to contribute an amount equal to 5.0% of base weekly earnings for each permanent parking lot employee/shuttle bus driver. The Authority's required and actual contributions for this plan aggregated $39,570 and $38,437 for 2014 and 2013, respectively.

Administration of the Plan

The Plan is administered by the Authority. The Trustee, Wachovia Securities LLC, holds the investment securities of the Plan and executes related transactions under custodial agreements with the Plan and the Authority.

Participation and Vesting

All permanent parking lot employees/shuttle bus drivers are eligible to participate in the Plan. Participants are 100% vested at all times.

Employee Contributions

No employee contributions are made under the Plan.

6. PENSION PLANS...continued
Defined Contribution Plans Sponsored by the Authority...continued

Security Employees Plan

The Authority also has a defined contribution plan for its permanent security employees. The Authority is required to contribute an amount equal to 5.0% of base weekly earnings for each security employee. The Authority's required and actual contributions for this plan aggregated $16,921 and $16,310 for 2014 and 2013, respectively.

Administration of the Plan

The Plan is administered by the Authority. The Trustee, Wachovia Securities LLC, holds the investment securities of the Plan and executes related transactions under custodial agreements with the Plan and the Authority.

Participation and Vesting

All permanent security employees are eligible to participate in the Plan. Participants are 100% vested at all times.

Employee Contributions

No employee contributions are made under the Plan.

Unlicensed Vessel Employees Plan

The Authority also has a defined contribution plan for its permanent unlicensed vessel employees. Effective August 23, 2014, the Authority is required to contribute an amount equal to 3.5% of base weekly earnings for each employee. Prior to that, the Authority was required to contribute an amount equal to 10.0% of base weekly earnings for the period April 15, 2000 through August 22, 2014; 9.0% from April 17, 1999 through April 14, 2000; 7.5% from April 18, 1998 through April 16, 1999; and 6.0% through April 17, 1998. The Authority's required and actual contributions aggregate $531,784 and $721,396 for 2014 and 2013, respectively.

Administration of the Plan

The Plan is administered by the Authority. The Trustee, Prudential Trust Company, holds the investment securities of the Plan and executes related transactions under custodial agreements with the Plan and the Authority.

Participation and Vesting

All permanent unlicensed vessel employees are eligible to participate in the Plan. Participants are 100% vested at all times.

Employee Contributions

No employee contributions are made under the Plan.

6. PENSION PLANS...continued
Defined Contribution Plans Sponsored by the Authority...continued

Multiemployer - Licensed Engineering Officers Plan

The Authority contributes to a multiemployer defined contribution plan for its licensed engineering officers. The Authority was required to contribute an amount equal to 10.667% of base weekly earnings for each employee on the permanent Chief Engineers roster as of August 1, 2008, and $12.50 per day for each engineering officer not on the permanent Chief Engineers roster as of August 1, 2008. In January 2012, the Authority discontinued contributing to the multiemployer defined contribution plan and instead began contributing to a multiemployer pension plan, administered by the Marine Engineers Beneficial Association Pension Trust at a rate of 11.7% of earnings.

Administration of the Plan

The Plan is administered by the Marine Engineers Beneficial Association Pension Trust, Trustee. The Trustee holds the investment securities of the Plan and executes related transactions under custodial agreements with the Plan.

Participation and Vesting

All engineering officers (chief engineers, third assistant engineers) are eligible to participate in the Plan. Participants are 100% vested at all times.

Employee Contributions

No employee contributions are made under the Plan.

Deferred Compensation Plan

The Authority has a deferred compensation plan, in accordance with Internal Revenue Code Section 457, available to all regular full-time employees. Under the terms of the plan, employees who wish to participate may have contributed up to a maximum of $17,500 of their annual compensation in 2014 and 2013. The Authority did not contribute to the plan in 2014 or 2013.

Notes to Financial Statements
Years Ended December 31, 2014 and 2013

6. PENSION PLANS...continued

Multiemployer Pension Plans

The Authority provides benefits to certain of its employees by making contributions to various multiemployer pension plans. Such plans are available to all full-time union employees not covered by the Authority's single employer pension plans, and their eligibility in the plans commences upon employment. Employees' benefits become fully vested upon completion of between five and fifteen years of vesting service, as defined in the Plans. The covered payroll of such employees was $17,325,117, $11,938,747 and $9,474,967 in 2014, 2013 and 2012, respectively.

Funding Policy

The Authority makes contributions to the multiemployer plans annually based on the Plans' funding requirements. Generally, such funding requirements are based on specified contribution rates times employees' person-days and person-hours of service (as defined in the Plans). The Authority's contributions to the Plans met the contribution requirements in 2014, 2013, and 2012, and aggregated $2,726,604 (15.7% of covered payroll for employees participating in the Plans in 2014), $1,914,936 (16.0% of covered payroll for employees participating in the Plans in 2013), and $1,538,133 (16.2% of covered payroll for employees participating in the Plans in 2012).

In March 2011, the Steamship Authority entered into successor collective bargaining agreements, with Teamster Local 59, with respect to its maintenance employees and its agency and terminal employees. Terms of the agreements allow the Authority to withdraw from the New England Teamsters and Trucking Industry Pension Fund (the "Fund"). The agreements provide that the Authority shall fully satisfy its withdrawal liability to the Fund by making 300 monthly withdrawal liability payments, each in the amount of $83,333, beginning October 2011. In addition, the Authority will enter into the New England Teamsters and Trucking Industry Pension Fund "New Employer Pool". The Authority's participation in the New Employer Pool requires that any future withdrawal liability be computed by the Direct Attribution Method under terms of the Employee Retirement Income Security Act of 1974 (ERISA §4211). In 2014 and 2013, the Authority made payments totaling $1,000,000, respectively, towards the withdrawal liability. The pension withdrawal obligation is recorded in the Statements of Net Position using the present value of the obligation based upon incremental borrowing costs.

In October 2013, the Steamship Authority entered into successor collective bargaining agreement, with Teamster Local 59, with respect to its licensed deck officers. Terms of the agreement allow the Authority to terminate the single employer, defined benefit pension plan established for the licensed deck officers and to transfer the assets and liabilities to the New England Teamsters and Trucking Industry Pension Fund "New Employer Pool" (the "Fund"). The agreement provides that the Authority shall fully satisfy its merger liability to the Fund by making 300 monthly merger liability payments, each in the amount of $7,390, beginning January 2014. The Authority's participation in the New Employer Pool requires that any future withdrawal liability be computed by the Direct Attribution Method under terms of the Employee Retirement Income Security Act of 1974 (ERISA §4211). In December 2013, the Authority made a payment totaling $1,000,000 to settle, in full, its obligation associated with the merger obligation. As this transaction is unusual in nature and within the control of management it is reported as a "Special Item" in the Statements of Revenues, Expenses and Changes in Net Position.

7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

In addition to the pension benefits described in Note 6, the Authority provides postemployment health care benefits for eligible employees who render at least 20 years of service and attain age 62 while in service until the employee is eligible for Medicare. The benefits, benefit level, employee contributions, and employer contributions are governed by the Authority and collective bargaining agreements. As of December 31, 2014, the actuarial valuation date, approximately 274 active employees and 6 retirees meet eligibility requirements. The plan does not issue stand-alone financial statements.

Benefits Provided

Medical coverage, excluding dental, under the group health insurance plan for regular full-time nonunion employees, licensed deck officers, and unlicensed vessel personnel with 20 or more years of service who retire after reaching age 62 will continue until the employee is eligible for Medicare. Coverage for the dependents of such regular full-time employees will also continue during this period provided that the employee pay 50% of the enrollment cost as established annually by the Plan administrator. Once the retired employee is entitled to Medicare, health care coverage for the employee's spouse will continue as provided for under COBRA, provided that the employee pay 100% of the enrollment cost as established annually by the Plan administrator.

Funding Policy

Effective January 1, 2013, the nonunion retired employee must pay 20% of the enrollment cost (the "working rate") as established annually by the Plan administrator. Effective July 27, 2013, the licensed deck officer retired employee must pay 20% of the enrollment cost (the "working rate") as established annually by the Plan administrator. Effective August 2, 2014, the unlicensed vessel retired employee must pay 20% of the enrollment cost (the "working rate") as established annually by the Plan administrator. The Authority contributes the remainder of the health plan costs on a pay-as-you-go basis.

Notes to Financial Statements
Years Ended December 31, 2014 and 2013

7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)...continued

Annual OPEB Costs and Net OPEB Obligation

The Authority's annual OPEB expense is calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers*. The annual required contribution (ARC) represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liability over a period not to exceed 30 years. The components of the Authority's annual OPEB cost for the years ended December 31, 2014 and 2013, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation based on an actuarial valuation as of December 31, are as follows:

	2014	2013
Annual required contribution (ARC)	$ 189,522	$ 187,260
ARC adjustment	34,643	29,730
Interest on net OPEB obligation	(33,095)	(28,402)
Annual OPEB cost	191,070	188,588
Contributions made	(92,158)	(65,769)
Increase in net OPEB obligation	98,912	122,819
Net OPEB obligation, beginning of year	866,074	743,255
Net OPEB obligation, end of year	**$ 964,986**	$ 866,074

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014, 2013 and 2012 are as follows:

THREE-YEAR TREND INFORMATION

FISCAL YEARS ENDED	ANNUAL OPEB COST	PERCENTAGE ANNUAL OPEB CONTRIBUTION	NET OPEB OBLIGATION
December 31, 2012	$ 179,324	46.3%	$ 743,255
December 31, 2013	188,588	34.9	866,074
December 31, 2014	191,070	48.2	964,986

Funded Status and Funding Progress

The funded status of the plan as of December 31, 2014, was as follows:

Actuarial accrued liability (AAL)	$ 2,483,899
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 2,483,899
Funded ratio (actuarial value of plan assets/AAL)	- %
Covered payroll (active plan members)	$ 17,715,239
UAAL as a percentage of covered payroll	14.0%

7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)...continued
Funded Status and Funding Progress...continued

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the Authority and plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2014 actuarial valuation, the projected unit credit method was used. The actuarial value of assets was not determined as the Authority has not funded its obligation in advance. The actuarial assumptions included a 4.0% investment rate of return and an annual health care cost trend rate of 7.0% initially, reduced by 0.5% per year to an ultimate rate of 5.0% after four years. Both rates include a 3.0% general inflation assumption. The UAAL is being amortized as a level percentage of projected payrolls on an open basis.

8. COMMITMENTS

Construction in progress at December 31, 2014 consisted of expenditures by the Authority for various construction projects, which management expects will be completed in the years 2015 and 2016. At December 31, 2014, remaining construction commitments for these capital projects aggregated $43,738,644. In addition, dry-docking and overhaul commitments for vessels aggregated $1,172,465 and commitments for terminal repairs totaled $1,073,320.

9. CONTINGENCIES

In the normal course of operations, the Authority has been named in various claims and litigation. Based upon information available to counsel and the Authority, management believes that the ultimate outcome from these claims and litigations will not have a material adverse effect on the Authority's financial position.

The Authority applies for and occasionally receives financial assistance from the federal government's various grant programs for specific projects. When this occurs, the entitlements to the resources are generally conditional upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for eligible purposes. Substantially all federal financial assistance is subject to financial and compliance audits. Any disallowances become liabilities of the Authority.

Notes to Financial Statements
Years Ended December 31, 2014 and 2013

10. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has purchased commercial insurance for these risks, except for those risks identified in the following paragraph, which the Authority accounts for in accrued expenses.

Group Health

The Authority has chosen to establish a risk financing fund for risks associated with the employees' health insurance plan. The total charge is calculated using trends in actual claims experience. Provisions are also made for unexpected and unusual claims.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Liabilities are recorded as a component of accounts payable in the Authority's statement of net position. Claim liabilities are calculated based on recent claim settlement trends, including frequency and amount of pay-outs. The calculation includes a weighted-three-year-average of claims paid by group with an adjustment made to claims to account for increases in medical cost based on the Consumer Price Index — Medical ("CPI-Med"). The Authority carries stop-loss insurance on individual medical claims in excess of $150,000 per person and approximately $5,275,000 in the aggregate, up to a maximum aggregate benefit payment of $1,000,000 per person per year. An analysis of claims activities is presented below:

	2014	2013
Liability, January 1	$ 832,772	$ 925,541
Current-year charges and changes in estimate	4,128,662	5,034,161
Actual claims paid	(4,392,259)	(5,126,930)
Liability, December 31	**$ 569,175**	$ 832,772

Such amounts are recorded as a component of current liabilities in the statements of net position.

11. HEDGE PROGRAM

The Authority manages a fuel oil hedging program, which is intended to take advantage of market conditions to cap fuel expense. The objectives of the program are to (1) identify exposure to movements in energy prices, (2) understand the impact to the Authority's financial position, (3) employ all reasonable and prudent measures to mitigate the impact of price movements, and (4) manage the volatility of energy costs to acceptable levels. The hedge program attempts to transform the unacceptable risks of skyrocketing energy prices into an acceptable form, similar to an insurance policy.

The Steamship Authority's hedging program operates under a non-speculative philosophy and transactions are limited to expected energy volumes anticipated in the normal course of operations. The Authority's hedging strategy may include fixed-price swaps, collars, or caps. The program is designed to allow the Authority to benefit from prices that fall below the cap while offering some protection that pricing will not exceed the cap price.

As of December 31, 2014, the Authority had executed hedging transactions for 2,646,000 gallons of fuel out of the approximate 2,850,000 gallons of fuel which is expected to be used in 2015. The cost of these call options totaled $319,833. As the Authority's hedging is for fuel oil used in the operation of its vessels and the monthly call options are for quantities lower than the quantities reasonably expected to be consumed, these activities would be subject to the exclusion provided for in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* and not required to be reported as derivative instruments.

12. SUBSEQUENT EVENTS

The Authority evaluated subsequent events through March 26, 2015, when the financial statements were available to be issued, and determined that there are no other material items that would require recognition or disclosure in the Authority's financial statements.

SCHEDULE OF FUNDING PROGRESS OF THE WOODS HOLE, MARTHA'S VINEYARD AND NANTUCKET STEAMSHIP AUTHORITY

PENSION PLAN (UNAUDITED)
YEARS ENDED DECEMBER 31, 2014 AND 2013

ACTUARIAL VALUATION DATE	(1) ACTUARIAL VALUE OF ASSETS	(2) ACTUARIAL ACCRUED LIABILITY ("AAL")	(3) UNFUNDED AAL ("UAAL") (2) MINUS (1)	(4) FUNDED RATIO (1) DIVIDED BY (2)	(5) COVERED PAYROLL	(6) UAAL AS A PERCENTAGE OF COVERED PAYROLL (3) DIVIDED BY (5)
NONUNION PLAN:						
March 1, 2005	$ 10,441,374	$ 12,911,237	$ 2,469,863	80.9%	$ 3,291,315	75.0%
March 1, 2006	11,094,694	14,046,302	2,951,608	79.0	3,622,566	81.5
March 1, 2007	12,221,252	14,829,791	2,608,539	82.4	3,854,169	67.7
March 1, 2008	12,422,133	15,869,358	3,447,225	78.3	4,136,517	83.3
March 1, 2009	10,338,427	17,219,930	6,881,503	60.0	4,364,363	157.7
March 1, 2010	13,169,377	20,442,913	7,273,536	64.4	4,468,181	162.8
March 1, 2011	13,749,726	18,502,026	4,752,300	74.3	4,454,583	106.7
March 1, 2012	14,418,382	20,657,993	6,239,611	69.8	4,286,564	145.6
March 1, 2013	17,252,151	22,830,628	5,578,477	75.6	4,013,205	139.0
March 1, 2014	19,755,867	24,756,583	5,000,716	79.8	4,013,517	124.6

Required Supplementary Information (Unaudited)

SCHEDULE OF FUNDING PROGRESS OF THE WOODS HOLE, MARTHA'S VINEYARD AND NANTUCKET STEAMSHIP AUTHORITY

OTHER POSTEMPLOYMENT BENEFIT PLAN (UNAUDITED) YEARS ENDED DECEMBER 31, 2014, 2012, 2010 AND 2008

ACTUARIAL VALUATION DATE	(1) ACTUARIAL VALUE OF ASSETS	(2) ACTUARIAL ACCRUED LIABILITY (AAL)	(3) UNFUNDED AAL (UAAL)	(4) FUNDED RATIO	(5) COVERED PAYROLL	(6) UAAL AS A PERCENTAGE OF COVERED PAYROLL
			(2) MINUS (1)	(1) DIVIDED BY (2)		(3) DIVIDED BY (5)
December 31, 2008	$ -	$ 1,981,264	$ 1,981,264	0.0%	$ 16,639,010	11.9%
December 31, 2010	-	2,152,225	2,152,225	0.0	16,305,706	13.2
December 31, 2012	-	2,130,447	2,130,447	0.0	17,170,992	12.4
December 31, 2014	-	2,483,899	2,483,899	0.0	17,715,239	14.0

The Steamship Authority

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